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NOVEMBER 1977

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Henry Hazlitt

INFLATION VERSUS PROFITS

ONE of the reasons why inflation is persistently advocated by Keynesians and others is that it is thought to increase the profitability of business. This is, in fact, an essential part of the argument of those who believe that inflation tends to bring "full employment": By improving the outlook for profits, it leads enterprisers to start new businesses or to expand old businesses, and therefore to take on more workers.

As we have seen, inflation may sometimes actually have this effect in its early stages. If it raises final selling prices more than it raises wages and other costs, and if it is expected to be only a temporary condition, it can stimulate increased investment and increased production. But when the inflation continues and is expected to continue, people begin to make compensating adjustments. Wages, interest rates, raw material prices and other costs begin to go up as fast as or faster than final retail prices. Profit margins begin to narrow or to become increasingly uncertain for individual firms. The "stimulus" of inflation becomes a deterrent.

There is an additional factor. Businessmen begin to discover that their monetary profits have been to a certain extent illusory. The dollar profits shown on their income accounts are misleading, because the dollar does not have the purchasing power it previously had.

Economists and statisticians have

Henry Hazlitt, noted economist, author, editor, reviewer and columnist, is well known to readers of the *New York Times*, *Newsweek*, *The Freeman*, *Barron's*, *Human Events* and many others. Best known of his books are *Economics in One Lesson*, *The Failure of the "New Economics,"* *The Foundations of Morality*, and *What You Should Know About Inflation*.

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been aware of this at least ever since index numbers of prices began to be compiled, but it is only in recent years that the accounting profession has acknowledged and attempted to do something to meet the problem.

Accounting Reform

Accounting reform has been rather piecemeal. It began around 1936. One of the principal practices that falsified financial accounts in an inflationary period was the orthodox method of dealing with inventories. The accountant assumed that the raw materials or parts that were bought earliest were those that were used first and embodied in the final product first. This was called the "first-in first-out" assumption (FIFO). If a part at the time of acquisition cost $1, and at the time of the sale of the finished product cost $2, the manufacturer in effect showed an added profit on his books equivalent to $1 on each of those parts. But this was a "phantom" profit, not likely to be repeated, because when he came to replace that part it would cost him $2.

So accountants are now increasingly advocating the use of the "last-in first-out" method of inventory accounting, popularly known as LIFO. The latest price paid for a particular item of inventory is the price used in making up the account. This means in effect that withdrawals from inventory are priced at the current price paid for additions to inventory. So on the assumption that inventory volume and production rates are relatively constant, LIFO removes part of the "phantom" profit shown by inflation. Even at the time of writing this, however, the firms taking advantage of the LIFO method of inventory accounting are still in a minority.

A second problem to be recognized by accountants is the amount of the write-off that a firm must make every year for the depreciation and obsolescence of its plant and equipment. Here again firms in the past have been grossly overestimating and overstating their profits in an inflationary period by making an insufficient write-off for depreciation.

Let us say that a firm's plant originally cost it $1 million and its equipment another $1 million, and that it depreciates its plant on a "straight-line" basis over a forty-year period and its equipment over a ten-year period. Then each year, on the average, it will be writing off $25,000 of its plant investment and $100,000 of its equipment investment against its gross earnings. But suppose at the end of the ten-year period it finds that to replace its equipment costs it $2 million, and that at the end of the forty-year period to replace its plant will cost it $16 million (with prices doubling

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every ten years). Then even at the end of ten years the $125,000 that it has deducted annually will prove to have been grossly inadequate. It may find that it has been paying dividends out of "phantom" profits—i.e., out of capital. At the end of the 40-year period, or much earlier, if may find itself unable to continue in business.

Measuring Replacement Cost

To solve this problem, some accountants are now proposing that depreciation allowances in an inflation no longer be based on original cost of equipment but on replacement cost. This, however, raises other questions. How should the replacement cost be calculated? Should it be the cost of replacing the identical plant or equipment, or the cost of an asset of equivalent operating or productive capability? It is obvious that this calculation is going to involve a lot of subjective guesswork. Still another problem is that in a continuing inflation it is impossible to allow accurately on an annual basis for replacement costs until the year that actual specific replacements have to be made.

Still another accounting problem in an inflation is how to calculate interest charges. Much depends on whether a company is a net lender or a net borrower. If it is a net borrower, it will probably pay during an inflation a higher than normal interest rate for money. On the other hand, it will be paying back its debt in money of depreciated purchasing power as compared with when it was borrowed. It is probable that its "real" gain from this depreciation will be greater than its "real" loss from a higher interest rate.

We come, finally, to "the bottom line." After all allowances have been made to put inventories, depreciation, and other costs on a "real" rather than on a money basis, we come to the amount of net profit. But when we compare this with preceding years we have to remember that the dollars shown in the net profit figure have not the same purchasing power as the dollars shown in the net profit of earlier years.

Inflation Accounting

The ideal of "rational accounting" in an inflation can only be achieved if we can eliminate fluctuations due to changes in the average purchasing power of money and restate everything in terms of dollars of constant purchasing power—all adjusted to some single base year or base period. But this is not easy to do. We will get different results if, for example, in resorting to official calculations, we use the GNP implicit price deflator or the consumer price index to make our adjustments.

Let us put aside pure theory for the moment, and ask what the ac-

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tual effect has been of using or not using the new inflation-accounting rather than orthodox methods. The difference has not been trivial.

In 1973, the economists of Morgan Guaranty Trust Company calculated that for the second quarter of 1973 "phantom profits" accounted for 40 percent of the total profits reported—$21.1 billion out of a total annual level of $51.9 billion.

In September 1975 George Terborgh presented a table of profits of nonfinancial corporations for each of the eleven calendar years 1964 through 1974, based on Department of Commerce data. Here are his figures for 1974 (in billions of dollars): profits before taxes as reported, $110.1; income tax liability, $45.6; profits after taxes as reported, $64.5; understatement of costs (because of failure to use inflation-accounting), $48.4; profits before tax as adjusted, $61.7; profits after tax as adjusted, $16.1; dividend payments, $26.2; adjusted retained earnings, *minus* $10.1. In other words, in 1974 these corporations thought they were earning and reported they were earning $64.5 billion after taxes. But they were really earning only $16.1 billion after taxes. And of the $26 billion that they paid out in dividends, more than $10 billion came out of capital.[1]

[1]*Capital Goods Review* (Washington: Machinery and Allied Products Institute, September 1975.)

Later figures confirm this result. Alcan Aluminium Ltd., with conventional accounting, posted a respectable pretax profit of $96 million for 1976. But required by the Securities and Exchange Commission to assume that its plants and inventories were to be replaced at 1977's inflated prices, Alcan discovered that its allowance for depreciation soared 140 per cent and its cost of sales edged up 2 per cent. As a result of substituting this replacement-cost accounting, Alcan's $96 million pretax profit became a hypothetical $119 million loss. This was an extreme case, but some of the profit reductions shown by other large companies were almost as striking.[2]

Conflicting Interests

Apart from all other difficulties, vested interests stand in the way of "scientific" accounting. Even government agencies are in conflict. On the one hand, the Securities and Exchange Commission wants a company to make adjustments for inflation so as not to give investors an exaggerated idea of its profitability. On the other hand, the Internal Revenue Bureau would like to collect the maximum tax possible, and would like all accounts on an orthodox dollar basis. There is a similar conflict of interest in private business. The owner or stockholders

[2]*The Wall Street Journal*, May 23, 1977.

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of a company would like it to be on an inflation-accounting basis so as to pay the minimum tax to the government. But the hired managers of the business would like it to show the highest profits as a proof of their good management—not to speak of the fact that many of them receive salary bonuses based on conventionally calculated profits per share.

Putting aside all questions of vested interest, it is increasingly difficult for a corporation to know, during a prolonged period of severe inflation, what it is actually earning. If it keeps conventional accounts, showing costs on an historical dollar basis, it will get false results, and appear to be earning more than it is. But if it attempts to adjust for the rise in prices over time, its adjustments may also be misleading. If, for example, the prices of its specific inventories have gone up more than the average rise in the wholesale or consumers price index, the difference, when those specific inventories have been used up, will represent a "real" profit. And if the managers attempt to allow for quality differences in replaced inventories or plant and equipment, their accounts will again reflect subjective guesswork.[3]

Ambiguities Abound

To emphasize the ambiguity of replacement-cost concepts, the U.S. Steel Corporation, for example, noted that its 1976 replacement cost depreciation would be $600 million under one set of assumptions but would range from $1.1 billion to $1.3 billion under another. Some other companies found that though their replacement cost would be much higher than the historical cost of their plant and equipment, they would be replacing with far more efficient equipment. As a result, industries with rapidly improving technology find their hypothetical profit results much less affected by inflation-accounting than industries with a stagnant technology.[4]

That corporation managers and investors in an inflationary period will not know precisely how much their companies are earning, is not a matter of merely academic interest. It is chiefly by comparing profitability that men decide what business to go into, or, if they are irrevocably in a given business, in which particular items to increase production and in which to reduce it.

Inflation changes the profitabil-

[3]George Terborgh has persuasively argued that in converting historical accounting entries into their present-day equivalents it is better both for theoretical and for practical reasons to use only a *single* index reflecting changes in the *general* purchasing power of the dollar, and not to attempt to adjust for the specific price rises in items of inventory or equipment. See *The Case for the Single-Index Correction of Operating Profit.* (Washington: Machinery and Allied Products Institute, 1976.)

[4]*The Wall Street Journal,* May 23, 1977.

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ity, or apparent profitability, of different businesses and occupations, and so leads to extensive changes in what is produced. When a major inflation is over, it is discovered that it has led in many cases to increased production of the wrong things at the cost of more necessary things. It leads to malproduction and malinvestment, and hence to huge waste.

But still another effect becomes increasingly serious. Not only do investors and managers not know what their companies are currently earning; they know still less what they are going to earn in the future. In the face of all experience, one of the most persistent of all fallacies is the tacit assumption that in an inflation all prices and wages rise at the same rate. This fallacy is nourished by the monthly publication of official index numbers reducing all wholesale and consumer prices to a single average, and by the persistent practice of newspaper headlines of citing "the" rate of inflation. These government averages of 400 to 2,700 different prices tend to make the man on the street, and even many professional economists, forget that even in normal times all individual prices are constantly changing in relation to each other, and that in periods of severe inflation this diversity and dispersion of price movements becomes far greater.

As we have seen elsewhere, all this leads to increasing business uncertainty. Even if, on the average, inflation tends to increase the total of dollar profits, no individual businessman knows how it is going to affect his own firm. He does not know how much his particular costs—for equipment, raw materials, and labor—are going to rise relative to all other prices in the economy, or whether or not he will be able to raise his own prices correspondingly. This disparity and dispersion of profits among producers increases as the rate of inflation climbs. The increasingly uncertain incidence of profits does far more to discourage new investment than the prospect of an overall increase of profits does to encourage it. A much higher rate of future discount is applied to inflation-generated profits than to those resulting from normal business operations. So employment, production, and investment are not only misdirected by inflation; in the long run they are all discouraged.[5]

[5]In addition to the two papers by George Terborgh cited in the text, the reader interested in pursuing the accounting problem in more detail is referred to *Inflation Accounting*, by James H. Sadowski and Mark E. Nadolny (*The Arthur Andersen Chronicle*, January 1977), and *Toward Rational Accounting in an Era of Unstable Money*, by Solomon Fabricant (New York: National Bureau of Economic Research, Report 16, December 1976). Dr. Fabricant's discussion is not only excellent in itself, but appends references to some 40 other publications on the subject.

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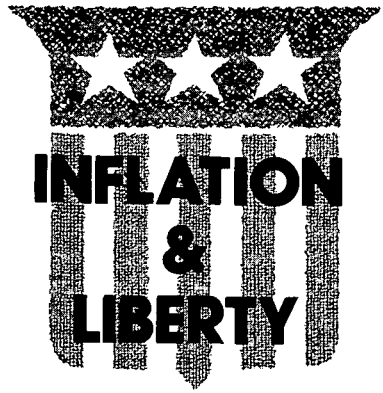
Hans F. Sennholz



IN the second half of the twentieth century the most vexing economic problem—the most intractable, unsolved, and foreboding problem—is that of inflation. It causes grievous distress to most countries of the world, and ravages societies, rich and poor, on both sides of the Iron Curtain. It is hardly surprising, therefore, that it has given occasion to countless books and articles, speeches, lectures and broadcasts. And yet, it is one of the great paradoxes of the age that it roars on with accelerating force, devouring not only economic income, wealth and security, but also tearing down, one by one, the economic, social and political pillars of free societies.

There is a broad measure of agreement among economists that "excessive" inflation brings about a collapse of the monetary system, that it consumes business capital, destroys the exchange order with its productive division of labor, and finally reduces economic life to primitive barter. Many even admit that too rapid a rate of inflation perpetrates a grievous fraud upon all savers, particularly the retired and pensioners, and that it impoverishes the middle classes. But their agreement is like that of alcoholics who generally admit that on occasion they imbibed too much. Like most alcoholics who discount the danger of growing addiction and cumulative effects on their physical and mental well-being, most economists demand small doses of monetary injections, which are said to refresh and stimulate the economic body. They speak of "flexibility" and "adjustability" of the money stock and favor, for one

Dr. Sennholz heads the Department of Economics at Grove City College and is a noted writer and lecturer on monetary and economic affairs.

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reason or another, its continuous expansion by monetary authorities.

In the Western democracies the popularity of the leading political parties vying for governmental power rests on their commitment to the welfare state, that is, economic redistribution and transfer by political force. They welcome the monetary theories of these economists, who in turn gladly accept the honors and favors of the transfer governments. The theories show the way for governments to engage in a new dimension of economic transfer that not only endows them with unprecedented economic powers, which in turn give rise to political power, but also weakens the political opposition pleading for limitations of government power and preservation of the private property order. The alliance between the economic profession and politics promising income and wealth through redistribution is sealing the fate of national currencies.

Economic and Political Effects

Monetary disorder is a mortal enemy of the private property order, and a serious threat to economic well-being and individual liberty. Its evil effects are felt in various ways:

•1. It profoundly modifies the social order and breeds economic and political radicalism among its countless victims. It destroys the savings of the middle classes and reduces the real earnings of wage earners who learn to distrust the price system. Realizing the inequity of distribution, most victims put their faith in strike action or government intervention.

•2. Inflation causes maladjustments of production to consumer demand as prices adjust to inflation with unequal flexibility. Production that is deemed "essential" and therefore controllable by public authorities is hampered and restricted, while non-essential production tends to expand.

•3. Governments are eager to apply coercion to mitigate the unpopular effects of their own inflation. With growing popular support they resort to such comprehensive measures as price, wage, and rent controls. They substitute public expenditure for shrinking private investment. They formulate "development plans" and create new bureaucracies for their implementation.

•4. In its early stage of development the transfer policy was limited to a few cases of individual assistance. State aid meant to alleviate the plight of the needy who were unable to care for themselves. But inflation continuously enlarges the circle of the needy and therefore the scope of government functions. It is a self-perpetuating force that calls for more redistribution, which in

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turn invites more inflation. Wilhelm Röpke, the eminent German economist and primary architect of Germany's miracle of revival after World War II, likened the process to that of "a revenue-pumping station, working day and night, with its tubes, valves, suction and pressure streams."[1] Its pumps deliver a steady stream of benefits from two classes of victims, the more productive taxpayers and the inflation victims.

•5. As politics encroaches ever more widely on economic and social life, the sphere of individual freedom and independence is constrained accordingly. Simultaneously, the sphere of international cooperation and integration is compressed by growing economic nationalism. All welfare state institutions are national in scope and domain: public assistance and relief, social security and unemployment benefits, tariff protection and quota restriction, government orders and subsidies. By their very nature social services are nationalized services that are designed to benefit residents only. The benefits are conferred by national governments to their constituents, which tends to confine the beneficiaries within their national boundaries. The victims of the redistribution process, on the other hand, may want to escape to friendlier shores, which government seeks to prevent through public law and compulsion.

•6. In desperation about the Western drift toward economic catastrophe, many writers are longing for a strong political leader who will bring salvation. "Mankind is seeking—and waiting for—a leader," writes Jacques Rueff, the distinguished French economist, "who will display the courage and intelligence required to rescue us. If such a leader does not exist, or if political circumstances prevent him from emerging, man's destruction is inevitable as that of a man falling from the roof of a skyscraper."[2]

Never Beyond Hope

These are words of despair about the future of man, sounding like the final warning of an inevitable catastrophe. One may hear the warning without necessarily sharing its extreme pessimism about the human condition. In the world of infinite power and possibility our comprehension is merely finite and our knowledge of things to come rather wanting. Considering the unforeseen events of this world, we are never beyond hope.

Sooner or later the advocates of price controls may realize that such controls constitute the very antithesis of economic freedom. Either

[1] *Welfare, Freedom and Inflation,* Pall Mall Press Ltd., London, 1957, pp. 38-39.

[2] *The Age of Inflation,* Gateway Editions, Henry Regnery Co., Chicago, Ill., 1964, p. xiii.

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the people are free to conduct their economic affairs as they see fit, or they are denied this freedom by regulations and controls. Price and wage controls are people controls.

Surely no serious student of economics would hope to fight inflation effectively with price and wage controls. The relationship between the two phenomena is about like that of a band-aid and a malignant tumor of the brain. Inflation is the cancerous multiplication of money by our monetary authorities in order to cover federal deficits or create new credits for the benefit of business. Governmental price and wage controls limit the people's freedom to make economic exchanges in accordance with their choices and preferences; these controls do not in the least affect the ability of the authorities to multiply and depreciate the money.

Either people are free to conduct their economic affairs as they see fit, or they are denied this freedom by regulations and controls. Price and wage controls are people controls.

It is significant that in all the rhetoric about our government's valiant effort to "fight" inflation, no word is ever spoken about the deficits the federal government is suffering. In fact, we are promised more federal spending and sizable tax cuts, which should boost the deficit by many more billions. Surely, this deficit could conceivably be covered through Treasury borrowing of the people's savings. But such financing would squeeze the life out of the capital markets, raise interest rates to lofty levels, and depress all economic activity. This is why a huge deficit can only be financed through the creation of more money, i.e., by inflation.

Controls Raise Costs

Price and wage controls tend to raise business costs. As the ultimate decisions are made in Washington, business becomes more bureaucratic. It needs to seek permission for price and wage changes, file detailed reports, and face government controllers and auditors. Business decisions are inevitably delayed as government agents ponder about their final approval.

Wherever the controls cause shortages or merely slow deliveries business becomes less efficient, which raises production costs. Moreover, labor tends to become less productive as a result of material shortages. Workers feel cheated and betrayed by the controls as wage contracts are superseded by wage decrees and reinterpreted by control officials. The controls breed dissatisfaction and conflict.

But in spite of all labor complaints,

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the price controls must be expected to be more severe than the wage controls. After all, the controllers who are politicians or their appointees cannot afford to antagonize millions of workers on whose political votes the chances for re-election depend. On the other hand, a tough stand toward business may be rather popular and therefore rewarding politically. Especially if the controllers are Republicans who are suspect anyway of being pro-business, they cannot afford to be lenient, but must be expected to be very strict in controlling prices. Stable prices and rising costs make production unprofitable and thus precipitate economic stagnation and depression.

Spreading Intervention

Price controls lead to all-round controls. When the economy begins to reveal the disruptions and distortions—the shortages and stagnations engendered by the controls—the government is unlikely to plead guilty for having inflicted such evils on its people. It has never done so in the past, and future administrations cannot be expected to act differently. Instead, they will find new culprits to blame and new tasks to perform in order to alleviate the evils of prior intervention. When economic output is lagging government will resort to more financial stimuli, such as easy money and deficit spending. When unemployment rises it will embark upon more public works and full-employment measures. When shortages make their appearance it will introduce rationing, allocations, and priorities. When people begin to ignore the price controls and seek relief on black markets it will prosecute them with growing severity. In all phases of economic life the government will assume command.

Price controls lead to all-round controls. When the economy begins to reveal the disruptions and distortions . . . the government is unlikely to plead guilty for having inflicted such evils on its people.

Such an ominous trend may be of little concern to a society that has lost its genuine love of and deep regard for individual freedom. A nation eager to be led cannot be frightened by the prospects of a command order. But it may hesitate to pursue the road to all-round controls if the awesome price is known that must be paid for such an order.

We are enjoying the highest standard of living on earth. With an average income of more than $6000 per head of the population per year, we excel all others by wide margins. Even our "underprivileged" black minority with an average in-

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come of more than $4500 per year lives better by far than the vast majority of Europeans, not to mention the Africans, Asians, or South Americans. Any disruption of our economic system can have but one effect on our level of living: to reduce it substantially.

High-Speed Collision

Indeed, to disrupt or depress a highly developed division of labor and exchange economy, such as ours, must have dire consequences. You can reduce the speed of a donkey cart without much loss of distance traveled, but if you slow the forward thrust of a jet plane you'll lose many miles in a matter of minutes. When the American economy slows down and our standard of living falls substantially, the psychological and sociological effects could be disastrous. In the demoralizing atmosphere of the transfer state, millions of Americans have grown accustomed to free government services and benefits. They are demanding the maximum of welfare from the community, giving little or nothing in return. Labor unions are making insatiable wage demands for a minimum of productive contribution. How will the American people take to depression and deterioration with shrinking wages and benefits?

The reaction may be militant and violent. Guided by doctrines of conflict and convinced of their inalienable rights to government care and egalitarian redistribution, they may insist on their rights. After all, our transfer politicians, parties, and intellectuals have for 40 years convinced them of the social justice of their claims. Are these now to be abrogated in the face of economic adversity? Moreover, their collective organizations wield the necessary political power to extract their due share from the body politic. But if this body should fail to yield the expected benefits, will the millions of beneficiaries peacefully suffer the welfare cuts? Will the labor unions peacefully consent to wage cuts? If they do not, our redistributive society may be torn asunder by civil conflict and strife. Business establishments may be looted, our cities burned, and law and order may give way to violent disorder. Since the first redistributive measure, several decades ago, this has been the ultimate destination of the redistributive state.

Any disruption of our economic system can have but one effect on our level of living: to reduce it substantially.

Finally, economic and social deterioration of such major magnitude strengthens the call for law and or-

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der. When society can no longer cooperate voluntarily and peacefully, the raw power of the state will be used to enforce some measure of cooperation. Vast emergency power will be thrust on the President who is expected to restore civil order. For this grim task the most ruthless politician is likely to rise to the top, surrounded by the most ruthless advisers and lieutenants. They will eagerly crush all dissent and bring peace to the society so bent on strife and self-destruction. They'll bring the peace that is totally negative to individual enterprise and personal freedom.

The Uses of Adversity

This scenario of things to come is merely one of many engendered by thought and reflection. There are others that come to mind, and many more which we cannot comprehend. We are forever blind to the future, but always living for it. Let us, therefore, make the best use of the present, with courage and dedication, and fulfill our parts. Henry Wadsworth Longfellow's words, written one hundred years ago, ring forever true:

Look not mournfully to the past—
It comes not back again;
Wisely improve the present—
It is thine;
Go forth to meet the shadowy future
Without fear, and a manly heart.

Even in evil we can discern the rays of light and hope, for man may gradually come to see, in suffering and misery, the error of his ways. We know of no greater economic folly than the combination of inflation and price controls, in which many Americans have placed their ultimate trust. And yet, we are ever hopeful that, in the end, reason will prevail over error and ignorance. ⊕

IDEAS ON LIBERTY

Reacting to Constraints

SINCE the need for liberty and the idea of liberty are not produced in those who are not subject to hindrances and constraints, the less we are aware of restrictions, the less the term and reflex liberty will exist. A person who is scarcely aware . . . of the constraints which are imposed on him by public powers . . . will react hardly at all against these constraints. He will have no impulse of rebellion, no reflex, no revolt against the authority which imposes such restrictions upon him. On the contrary, as often as not he will find himself relieved of a vague responsibility.

PAUL VALERY

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Yes, America, There Is an Energy Problem BUT...

(An Interview with Benjamin A. Rogge)

THE ENERGY CRISIS is real, according to Dr. Benjamin A. Rogge, Distinguished Professor of Political Economy at Wabash College. The nature of that crisis and its remedy, however, are not as they have been outlined in the President's national energy plan, Prof. Rogge said in an interview with the *Wabash Street Journal*.

Prof. Rogge's assessment of the energy problem and his discussion of the proper remedies are reprinted in full in the following paragraphs.

Question: Isn't the world (including the U.S.) rapidly running out of resources, particularly those used in energy production?

Answer: Nonsense! Both analysis and history suggest exactly the opposite. If resources and energy markets were permitted to be even partially free in the years ahead, there is every reason to believe that the *real* cost of energy would continue to decline over the next 100 years, as it has over the last 100.

Q.: How can you say that, when we are told that we can anticipate a serious shortage of natural gas this coming winter? Won't this shortage be *real?*

A.: Of course it will be real!—but totally unnecessary. As Professor Milton Friedman has said recently, "Economists may not know much but there is one thing they do know how to do and that is how to produce a shortage or a surplus. Set a price *below* the market price and a shortage is created; set a price *above* the market price and a surplus is created."

The existing "shortage" of natural gas is the predictable (and predicted) consequence of the ceiling price on natural gas at the wellhead that was imposed in 1954 and that

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continues to this day. Estimates have been made that at a free-market price (that would still leave gas the lowest-cost source of energy for most uses), our natural gas reserves should be adequate for another 1000-2500 years of full and expanding use.

Q.: But, whatever its cause, don't you agree that we now face an energy problem and that we need to conserve our currently available energy supplies?

A.: Of course we need to take conservation measures—which is precisely why I am urging an immediate deregulation of the prices of basic energy materials. The market has its own magnificent incentive to conservation—an increase in price!!

Moreover, the market way of conserving permits each individual householder, businessman, farmer, car owner, or the like to conserve in the way that is best suited to *his* special circumstances. To conserve on heat use, one householder may wish to add insulation, another may wish to close off unused spaces, another may wish to turn down the thermostat, buy sweaters for everyone and order his daughter and her boyfriend to take up the old courting practice of bundling.

In addition, the market method of inducing conservation, in contrast to the government-ordered method, also encourages suppliers and would-be suppliers to redouble their efforts to add to the supply of energy.

Q.: But how do you *know* that that will happen? Exactly where is all this new energy supply going to come from? Nuclear? Solar? Geothermal? Gasification of coal?

A.: I do not know; James Schlesinger, our energy czar, doesn't know. *No one* knows, because the very essence of the free market operation is the unpredictability of the specific outcomes. The market process is a never-ceasing *search* process, carried on by literally millions of participants, each trying to serve his own purposes by finding new and better ways of producing and making efficient use of energy.

The number of variables in the energy equations is literally in the billions and it is for this reason that any attempt to "solve" the problems involved by government direction is predestined to failure. The miracle of the market consists precisely in its capacity to make use of these billions of bits of special information in getting the world's work done efficiently—and in the interests of the consumers.

Q.: But isn't the cost of this so-called miracle a significant factor? What about the windfall profits the big oil and mining companies would enjoy in the meantime?

A.: *All* profits and losses are "windfall" in nature, in the sense that they arise out of a concurrence

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of events that no one could have foreseen in perfect detail. At the same time, these windfall profits will be the carrot hanging in front of every possible producer of energy, and hence will be precisely the agent of a continuing solution to the energy problem—in the process of which the profits will tend to return to normal.

How can we encourage people to try to produce energy for us, with a warning that, if they fail, they must bear the losses, if we don't also assure them that, if they succeed, they will get to keep their winnings?

Q.: But how can people like Ralph Nader and others be so wrong in what *they* propose as solutions to the energy problem?

A.: For one thing, Nader has had a lot of experience at being wrong—witness the Corvair episode. But most importantly, in their approach to the energy problem, they seem to me to be largely giving vent to their dislike of industrialization, economic growth, suburbia, economic success, cars—especially big, comfortable cars—and (for some) the whole capital process itself. The energy problem is simply the reason-of-the-moment for an attack on the establishment and its system.

Q.: You sound pretty biased yourself. But, however that may be, wouldn't turning the market loose lead to an explosion of prices and real damage to the low-income families of America?

A.: The groups in America that have the most to gain from the free-market approach are precisely those with little money and even less influence with the powers that be. The world of government controls and rationing is a world made to order for those who have money and/or influence. For the man on the street, it is a world of disaster and frustration.

Q.: But surely you wouldn't deregulate everything right away!

A.: Oh, but I would! Don't cut off the dog's tail an inch at a time. ⊕

IDEAS ON LIBERTY

For the Common Good

To sustain the individual freedom of action contemplated by the Constitution is not to strike down the common good, but to exalt it; for surely the good of society as a whole cannot be better served than by the preservation against arbitrary restraint of the liberties of its constituent members.

JUSTICE GEORGE SUTHERLAND

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World in the Grip of an Idea

Clarence B. Carson

11. Germany: The Promise and the Terror

To outward appearances Hitler came to power legally in January of 1933. The Nazi Party had received the largest percentage of the vote in the last two general elections and thus had the largest delegation in the Reichstag. President Hindenburg had appointed Hitler Chancellor, which was the method prescribed by law. Indeed, naming him to head the government could have presaged a return to substantial constitutional rule. Undoubtedly, Hindenburg hoped it would. Increasingly, for the past two years Germany had been governed by presidential decree because the Chancellors and their cabinets could not command a majority in the Reichstag. The naming of Hitler to head the government was supposed to be a step toward restoring parliamentary government by placing the head of the largest party at the focus of power.

But Hitler's rise to power was accomplished only apparently by legal means. The way is opened to seeing this when we realize that he was

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In this series, Dr. Carson examines the connection between ideology and the revolutions of our time and traces the impact on several major countries and the spread of the ideas and practices around the world.

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granted very little power on January 30, 1933. There were only three Nazis, including Hitler, in the eleven member Cabinet. The allegiance of the armed forces was to President Hindenburg, and he could assume command over them by declaring martial law. Most police powers were exercised by the states. President Hindenburg further circumscribed Hitler's powers by requiring that he obtain a parliamentary majority in order to retain his position. The Reichstag could, in theory, force his resignation at any time by a vote of no confidence. To all but Hitler, and probably a few others, he appeared to be boxed in.

Hitler had no intention of being boxed in or restrained, but it was crucial that he observe the forms of legality. Historians have continued to ponder over the years why the army did not put a stop to Hitler, why the labor unions did not go out on a general strike, and why this or that group (or even the German people) did not rise against him. There are a number of reasons for this, but the primary one is that he had been installed legally in his position. His legal hold on power tended to disarm his enemies and render them irresolute. One scholar has described Hitler's method of operation this way:

> . . . For Hitler's originality lay in his realization that effective revolutions, in modern conditions, are carried out with, and not against, the power of the State: the correct order of events was first to secure access to that power and then begin his evolution. Hitler never abandoned the cloak of legality; he recognized the enormous psychological value of having the law on his side. . . .[1]

He wore this cloak much more frequently during the first year and a half than he did thereafter.

To Gain Power

Hitler was faced with political problems as soon as he was installed. The most pressing was to get a working majority in the Reichstag. Beyond that, he wanted to have passed an Enabling Act which would permit the cabinet to promulgate laws without Reichstag approval. This would allow him to bypass not only the Reichstag but also the President. There was a possibility that he could have got his working majority, but there was no possibility of getting an Enabling Act through the Reichstag with its present composition. The Social Democrats and Communists—the Marxist parties—almost certainly would combine to prevent that. As a matter of fact, The Social Democrats determined quickly after Hitler was installed as Chancellor that they would introduce the call for a no confidence vote as soon as the Reichstag met.

The Cabinet considered three different approaches toward getting a

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working majority. Hugenberg, the Nationalist leader, wanted to expel the Communists from the Reichstag. Not only would this be illegal but it might also provoke the dreaded general strike. Hitler and the others rejected this approach.

Another, and legal, way would be to get the support of the Centre Party and possibly also the Bavarian People's Party, probably by bringing them into the government. Hitler did enter into negotiations with the leaders of these parties, but reported to the Cabinet that their demands were too great for any hope of agreement. There is a widely held belief that Hitler did not want to come to terms with these parties. That may well be, for he certainly would have been boxed in if he had accepted dependency on the Centre Party, say. Even a small party holding a balance of power would have great leverage.

In any case, Hitler adopted a third approach, one which he probably had planned from the outset: to ask President Hindenburg to dissolve the Reichstag and call for a new election. The election was set for March of 1933.

Hitler seemed to be taking a considerable gamble by holding new elections. This would be the third such election in less than a year, and the Nazi Party vote had been smaller in the second than in the first. If it should decline once again, Hitler's position would be less secure than it was. Of course, Hitler believed that as head of the government he would be able to employ fair means and foul to consolidate his position. The pretext for resorting to force, if he needed one, was provided by a fortuitous event: the Reichstag fire. On the night of February 27, 1933 the Reichstag building went up in flames.

An Excuse to Suspend Liberties and Use Force

While the building was still smoldering, Hitler concluded that the fire had been set by Communists or, more broadly, Marxists. It was a signal, he proclaimed, for a Bolshevik revolution in Germany. So far as has ever been determined, it was actually the work of a lone man, a Dutch ex-Communist who confessed to it and was executed. A great effort was made to prove that there was a Communist conspiracy; several Communists were arrested and tried. However, the court found them not guilty. It was widely held for a long time that the fire must have been set by Nazis, that it probably was directed by Hermann Goering, and some still believe this to have been the case. However, careful scholarly investigation since World War II has failed to turn up any solid evidence that the Nazis did it.[2]

In any case, the Nazis used the

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occasion to suspend liberties and step up the use of force. On the day after the fire President Hindenburg was induced to sign a decree permitting the government to place "Restrictions on personal liberty, on the right of free expression, including freedom of the press; on the rights of assembly and association. . . .," among other things.[3] Just prior to the election, "Some four thousand Communist officials and a great many Social Democrats and liberal leaders were arrested, including members of the Reichstag, who, according to the law, were immune from arrest."

> . . . Truckloads of storm troopers roared through the streets all over Germany, breaking into homes, rounding up victims and carting them off to S.A. barracks, where they were tortured and beaten. The Communist press and political meetings were suppressed; the Social Democrat newspapers . . . were suspended. . . . Only the Nazis and their Nationalist allies were permitted to campaign unmolested.[4]

The tenor of the campaign is revealed in these promises of Goering in a speech at Frankfurt two days before the election: "Certainly, I shall use the power of the State and the police to the utmost, my dear Communists, so don't draw any false conclusions; but the struggle to the death, in which my fist will grasp your necks, I shall lead with those down there—the Brown Shirts."[5]

Erasing the Communists

Even with the power of an unrestrained government behind them, the Nazis failed to get the majority they sought; they received approximately 44 per cent of the total vote. However, it already had been decided that the Communist Party would not be permitted to seat any delegates in the Reichstag. Without them, the Nazis had their working majority. (It is generally believed that Hitler had only permitted the Communist Party on the ballot to forestall the shift of much of the vote of their followers to the Social Democrats.)

Hitler got his Enabling Act, too, when the Reichstag met. Only the Social Democrats, such of them as were not being held by the Nazis in prisons or concentration camps, voted against it. The scene on the day of the vote was reminiscent of that of the meeting of the Russian Constituent Assembly in January 1918. There were Storm Troopers all about, and the streets were filled with these uniformed forces, chanting for the passage of the bill. Only Otto Wels, the Social Democrat leader, got up enough courage to speak against it, and Hitler rose immediately after to denounce him. The final vote was 441 for and 84 against. The Reichstag had, in effect, voted itself into oblivion. Thereafter, "legality" hardly was distinguishable from the will of Hitler.

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Overcoming Resistance

Even before the passage of the Enabling Act, Hitler had begun the process of subduing the potential of resistance of independent organizations in Germany. The main ones with such potential were: political parties, the states, labor unions, the churches, industrial and trade organizations, farmer groups, the regular army, professional associations, and, eventually, his own paramilitary organizations. With the Enabling Act in one hand, he could and did step up the pace of abolition, subversion, and subjection of these organizations.

Before describing this, however, the terroristic setting within which it occurred needs to be made clear. The main instrument of terror during the first year or so of Hitler's rule was the SA (Storm Troopers), though it was ably assisted by the SS, the Gestapo, and the regular police. The SA expanded rapidly after Hitler became Chancellor. It had, perhaps 400,000 members at the beginning of 1933; by the end of the year it had from 3 to 4 million members. Many Communists now came into the SA. "Between January and November, 1933. . . . , the numerical strength of the Berlin SA rose from 60,000 to 110,000, and former Communists accounted for about 70 per cent of the increment."[6] In and around Berlin, Goering combined the SA with the police and loosed them against "anti-State organizations."

> . . . All the SA's basest instincts, all its pent-up social discontent, all that inflammatory orators and propagandists had been dinning into it for years, was given free rein—and Prussia turned into a terrorists' witches' cauldron. Mobile squads of SA swept through the streets of the towns, the worst thugs being in Berlin. Section 1c of SA headquarters . . . drove so-called enemies of the State in front of it, dragged them into huts, shelters, cellars and out-of-the-way places, beat them up and tortured them. This state of affairs was not confined to Berlin; terror reigned in the provinces too. . . .[7]

Rudolph Diels, who was able to use his position to get some of the prisoners released, described what happened to some of them: "The victims whom we found were half dead from starvation. In order to extort confessions from them, they had been kept standing for days in narrow cupboards. 'Interrogation' consisted simply of beating up, a dozen or so thugs being employed in fifteen-minute shifts to belabour their victims with iron bars, rubber truncheons and whips. When we entered, these living skeletons were lying in rows on filthy straw with festering wounds."[8]

The Nazis had no intention of tolerating political opposition, nor would they collaborate for long with other political parties which were independent of them. The Com-

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munist Party had been, in effect, proscribed since the Reichstag fire. In May, 1933, its assets and property were seized, and the Party ceased to exist. Shortly thereafter the property of the Social Democratic Party was taken, and it was officially dissolved in early July. Harassment of the other parties led their leaders to dissolve them. Even the Nationalist Party, which had been most cooperative, was not permitted to survive. "On 21 June the police and S.A. occupied the Party's offices in a number of German towns, and a week later the leaders, bowing to the inevitable, dissolved the Party." To round it all off, Hitler promulgated this law on July 14, 1933:

> Article I: The National Socialist German Workers' Party constitutes the only political Party in Germany.
>
> Article II: Whoever undertakes to maintain the organizational structure of another political Party or to form a new political Party will be punished with penal servitude up to three years or with imprisonment up to three years, if the action is not subject to a greater penalty according to other regulations.[9]

The "other regulations" were probably the laws against treason. At any rate, there was now only one party in Germany.

The states were reduced to administrative units of the Reich government in a few months. That puts it too tamely: they were made into instruments of the will of Hitler and those immediately under him. Following the general elections in March of 1933 and the passage of the Enabling Act, the state legislatures were ordered reconstituted in accordance with the national elections. Even before that, however, the subjection of the states had begun. Papen, as Chancellor of the Reich, had gained control of the Prussian government in 1932. Under Hitler, Goering was given control over the police in Prussia, including Berlin. The government of Bavaria, the second largest German state, was seized by the Nazis, even before the last general election. Hitler eventually became "governor" of Prussia, and Goering its prime minister, thus consolidating the rule of Germany's largest state with that of Germany. A "Law for the Coordination of the States with the Reich" was set forth April 7, 1933:

> This revolutionary statute deprives the States of independent authority and largely abolishes the federal system. It provides for the appointment of . . . Governors appointed by, subject to, and directly representing the Reich government. They will take charge of the State governments and ensure that the latter observe "the political directions set forth by the Reich Chancellor." . . . The . . . Governors appointed during ensuing weeks are . . . without exception Nazis, as a rule Nazi Gauleiters.[10]

The labor unions were supposed to be the most dangerous threat to the

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Nazis; a general strike could, in theory, paralyze the country. The Nazis moved stealthily and swiftly against them. The government declared May 1, 1933 a national holiday in celebration of labor. This "May Day" celebration was undoubtedly intended to quiet any fears the leaders might have that anything ominous was portending for them. Then, on May 2, the Nazis struck. The socialist unions were dissolved. "Early in the morning SA and SS men, aided by the police, occupy their offices, buildings and banks throughout the country. Their leading representatives . . . are summarily arrested and incarcerated in prisons or concentration camps."[11] The Christian Trade Unions and such others as existed then "voluntarily" yielded up their independence to the Nazis. A German Labor Front controlled by the Nazis was set up to replace the independent unions. Workmen continued to pay their dues, but they no longer were able to take any action by way of the unions.

Using the Churches

The churches, too, were subdued by the Nazis, but the approach to them was more subtle than to many other organizations. Hitler sought to use them as an instrument in forging German unity and to limit their impact when it would not be in that direction. The Roman Catholic Church posed the potentially greatest problem, since significant control over it was exercised from beyond the bounds of Germany. Hitler sent emissaries to the Vatican, and these eventually were able to work out a Concordat with the Pope. The effect of this was to tend to undermine any opposition from the Catholic clergy within Germany. So far as the Lutherans were concerned, Hitler managed to get Nazi sympathizers in positions of authority over many of them.

There can be little room for doubt, however, that the thrust of Christianity is in the opposite direction from National Socialism, that the unity and militancy of the Nazis ran counter to Christianity. Warfare is hardly a Christian ideal as it was an ideal for the Nazis. Undoubtedly, leading Nazis hoped eventually to replace Christianity with Hitler worship, but in the meanwhile they sought to subvert the churches, and they persecuted those who attempted to maintain the distinct mission and independence of Christianity.

Indeed, the brunt of Nazi terror was focused on carrying out religious persecution. The most dramatic, sustained, and, eventually, horrible instance of this was the persecution of the Jews. Hitler claimed, of course, that the assault upon the Jews was motivated by racial rather than religious considerations. Yet, if Jews were distin-

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guishable from the rest of the population by anything other than a common religious background, Hitler never discovered it, for he required them to display the Star of David—surely a religious emblem—so that they would be recognized. Jews were subjected to discriminatory measures, to being hounded out of the professions, to the loss of property, to harassment by the populace, to persecution in concentration camps, and encouraged to go elsewhere to live during the 1930's.

Jehovah's Witnesses were invariably persecuted because of their pacifist views. Of Catholic persecution, William L. Shirer says: "thousands of Catholic priests, nuns and lay leaders were arrested, many of them on trumped-up charges of 'immorality' or of 'smuggling foreign currency.' Erich Kausener, leader of Catholic Action, was . . . murdered. . . . Scores of Catholic publications were suppressed and even the sanctity of the confessional was violated by Gestapo agents."[12] Among Protestants, those who identified themselves as the "Confessional Church" were the most vigorously persecuted.

No Active Opposition

Neither industrialists, shopkeepers, nor farmers posed any great threat to the Nazi regime. They are, in any case, fundamentally engaged in peaceful pursuits, and such organizations as they possessed were used by the Nazis to direct and coordinate their activities. Much of German industry was already cartelized; it served Hitler's purposes for it to be even more so, for concentrated industry was much more readily controlled by the state.

The question often has been raised of why the Nazis did not meet greater opposition in Germany. Why, it has been asked, did the state leaders or political parties or labor unions not mount an effective opposition? Why did the churches not speak out strongly and unequivocally against Hitler? Why, even, did the Jews not serve as catalysts for a concerted opposition? Why did business leaders not resist the Nazi thrust to power? Why did the army not prevent the spread of terror and barbarism in Germany? Indeed, why was there such apparent widespread support among the German people for Hitler? What happened, it is well to ask, to journalists, writers, judges, lawyers, artists, and what may be thought of in general as the keepers of civility? Why did all these not raise such a storm of opposition that the Nazi tide would have been turned back from the beginning?

There are, of course, particular explanations to be made in answer to each of these questions, explanations which would account, in part, for the failure of particular groupings and organizations. But there is

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a broader explanation which includes all of them and is, hopefully, more complete than all the separate explanations would be. In the broadest sense, Germany did not rise in opposition to Hitler because it was deeply divided. It was divided into many different political parties, as has been shown, and most of these were locked in ideological conflict with one another. Many laborers were members of unions intent on gaining their own ends and in opposition to much of the rest of the populace. The army was imperiled by the paramilitary organizations. Many, many people were monarchist rather than republican in inclination.

The Promise of Unity and the Crushing of Resistance

What enabled Hitler to consolidate his power and subject the German people to his will was the Promise and the Terror. What Hitler promised was to end the divisions within Germany, to forge a national unity, to concert the energies of the people behind the building and expansion of a specifically German state. Hitler offered himself as the visible symbol, the Leader, of such a unity. He would lead Germany to the realization of its national greatness. Opposition to Hitler, in this context, became opposition to German unity, opposition to German greatness, opposition to the melding of the Germanic people into an organic whole.

Those who have contemplated Nazi Germany from a safe remove in time and place have imagined options which were not apparent to the German people. The alternative, if it could be called that, which Hitler offered was either to blend with and become a part of the organic unity or to be isolated and alone. In theory, no organization could exist which did not contribute toward the achievement of this unity and was not subordinate to it. Bishop Marahrens of Hanover had grasped the point when he made this public declaration in 1937: "The National Socialist conception of life is the national and political teaching which determines and characterizes German manhood. As such, it is obligatory upon German Christians also."[13] The Promise, to those who would so yield, was that they would realize their own potential by identification with the greatness of the nation.

Those who would not, or could not as in the case of the Jews and Gypsies, would be crushed. Underlying the Promise was the Terror. There was no real option of being left alone in Nazi Germany. Any who were not for Hitler were against him; all who were not of the collective were a menace to it. Just as a farmer insists on having all the pigs in the pen, so Hitler would have all broken to the

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mentality of his collective or destroyed. A stubborn pig will sometimes resist being penned, running hither and yon to escape his fate. He will, of course, be pursued, hounded, beaten about his tender nose, and otherwise tormented until he goes in or dies of exhaustion. There were object lessons aplenty in Nazi Germany for any who gave thought to resisting. Two examples may suffice.

Purging the SA

The first usually is described as "The Night of the Long Knives." Most of the events associated with it took place June 30-July 1, 1934. During that time and in the succeeding days, the leaders of the SA were put to death, along with a goodly number of other people whom Hitler feared or hated. "Put to death" may be too gentle a phrase; they were murdered, murdered in a manner that is usually associated with gangland massacres. Hitler personally went to Munich to oversee the roundup of victims there; the chief of these was Ernst Röhm, the commander of the SA. Himmler's SS carried out this purge, and it was the signal of the triumph of that organization over the SA. It is generally believed that several hundred were killed, but the exact number never has been determined.

The background, so far as it is known, is this. As already noted, the SA had expanded rapidly in the course of 1933 until it was far and away the largest organization in Germany with the potential of being a military force. The SA had been Hitler's main instrument of terror during his thrust to power in the early months of 1933. However, by the middle of the year Hitler was ready to declare, and did, that the political revolution had been accomplished and that henceforth change would be made gradually and by evolutionary means.

There were rumblings within the SA of the desirability of completing the "social revolution." But Hitler had no intention of allowing German industry to be destroyed by turning it over to the heavy handed and inept SA. Relations between Hitler and Röhm ranged from cool to cordial thereafter, but the impression prevailed that the SA leaders were champing at the bit to play some more vital role in the Reich. Röhm focused increasingly on one goal, to train and equip the SA as an army and have it become the bulwark of Germany's expanded and revitalized armed force.

The idea may have appealed to Hitler. His goal, of course, was a vastly expanded army following the repudiation of the Treaty of Versailles. In the SA he might have the potential for such an army already enlisted. But there clearly were drawbacks to such an approach. The

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Storm Troopers were street fighters, more like a mob than an army, and their loyalty—whether to Hitler or Röhm—was uncertain. More, the regular army leaders unalterably were opposed to being undercut by Röhm's amateurs. This was one area where President Hindenburg, a professional soldier himself, was adamant; the SA must be put in their place. Caught between these pressures, Hitler dallied, apparently reluctant to strike down an old comrade. But when he struck, he struck in his usual underhanded, masterful, and monstrous fashion. Röhm was sent on sick leave, and the SA was given a month's vacation in July with the promise that they would be reassembled at the end of that time. On the eve of their vacation, Hitler made his move.

The Sinister Purpose

It is doubtful that Hitler would have had several hundred people killed, and that illegally by all civilized standards, in order simply to downgrade the SA. Besides, a goodly number of those killed had no association with the SA. His sinister purpose may be revealed more clearly in the murder of two professional soldiers. "On the morning of June 30, a squad of S.S. men in mufti rang the doorbell at General von Schleicher's villa on the outskirts of Berlin. When the General opened the door he was shot dead in his tracks, and when his wife, whom he had married but eighteen months before . . . stepped forward, she too was slain on the spot. General Kurt von Bredow, a close friend of Schleicher, met a similar fate the same evening."[14] The lesson hardly would be lost on military men. Their rank and status—Schleicher had been a Chancellor, too—would not protect them if they opposed Hitler. A man, even a professional soldier, is ever exposed and potentially alone, when he is subject to being shot down in his home on orders from the highest government officials. Hitler drove the point home in his speech to the Reichstag later that month: "And everyone must know for all future time that if he raises his hand to strike the State, then certain death is his lot."[15] And Hitler was the State.

The second example of the Terror shows also, but in a different way, the lot of the opponent, real or imagined, of the regime. It takes us into the concentration camps where the ultimate nature of revolutionary socialism is revealed. The concentration camp is as essential to revolutionary socialism as the garbage dump is to cleaning the modern city. Indeed, the functions of each are so similar that Solzhenitsyn has referred to the camps in Russia as a garbage disposal system. The idea that has the world in its grip is that all human effort will be concerted

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toward achieving felicity. But there are those who will not be concerted or for one reason or another cannot be concerted. (Indeed, there may be no upper limit to the number who might be put in this category.) Something must be done with them, and the concentration camp is their most plausible destiny. They are, so to speak, the refuse of collectivism.

The Recycling Process

Nowadays, considerable effort is put into reclaiming for use the refuse of the cities: waste materials are recycled; sewage water goes through a purification process; even garbage might be reused in some way. In like manner, concentration camps have been used, to some extent, for "recycling" or "purifying" human beings and bringing them into accord with the collective. This "recycling process" entails separating them from society, isolating them from one another, cutting away every shred of their independence, and developing in them a longing to be identified with the collective, even with the most visible of the collective, their own jailers. Even if they cannot be finally repatriated, so to speak, collectivism finds its vindication and justification in their longing for it.

Bruno Bettelheim makes a particularly good witness about this aspect of the Terror and of concentration camps. An Austrian Jew, trained in psychology, Professor Bettelheim was confined in the Nazi concentration camps at Dachau and Buchenwald in the late 1930's, prior to the time when they became extermination camps. In contrast to many who have written about the camps, he concluded that the torments to which the prisoners were subjected ordinarily were not aimed at satisfying the sadistic whims of the SS guards. On the contrary, they were designed to bend and break the will of the prisoner in order not only to make him pliable but also to align him with the aims of the regime, or, at the least, make him useful in some way.

Dehumanization

The first stage in this attempted transformation took place during the initial transportation to a camp. The prisoners were kicked, slapped, knifed, or wounded in other ways. They also were put in uncomfortable and unusual positions for long periods to produce extreme exhaustion. "The guards also forced prisoners to hit one another and to defile what the SS considered the prisoners' most cherished values. They were forced to curse their God, to accuse themselves and one another of vile actions and their wives of adultery and prostitution. . . . Until it was over, any failure to obey an order, such as slapping another prisoner, or any help given a tor-

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tured prisoner was viewed as mutiny and swiftly punished by death." "The purpose of this massive initial abuse," says Bettelheim, "was to traumatize the prisoners and break their resistance. . . ."[16] The purpose, too, was to cut the individual loose from the protection he usually received and confidence he had from being civil, moral, and decent. It began the process of severing him emotionally from society and isolating him from the protection of his fellows.

Although the attack on the personality was not so severe once they were in camp, it was much more prolonged. The way they were treated appeared to be designed to make them regress to a childlike condition. They were not permitted to address one another by their titles nor to use the formal modes of address. They were whipped for misbehavior, even as children sometimes are. Their attention was focused on bodily elimination, even as small children are, by allowing them insufficient time to take care of it and obsequiously gain permission from the guards to seek relief. They were made to do meaningless work, sometimes were hitched to wagons like horses, and made to sing rollicking songs when they marched. They were being robbed of their status as adult human beings.[17]

Bettelheim experienced the next stage at Buchenwald; it was the merging of the individual into a mass, the group. This is how it was done:

> Whenever possible the prisoners were punished as a group so that the whole group suffered for and with the person who brought about the punishment. . . . It was in the group's interest to prevent anyone from endangering the group. As already noted, the fear of punishment was more frequent than the reality, which meant that the group asserted its power over the individual more often and more effectively than the SS. In many respects group pressure was practically permanent. Moreover, each prisoner was unusually dependent for survival on group cooperation. This added further to a situation where the group was constantly controlling the individual.[18]

Protective Coloration

The final stage occurred when the prisoners had come to identify themselves with their captors, the SS, to imitate their behavior, and to treat other prisoners, and think of them, as did the SS. This was a stage reached only by "old prisoners," those who had been in the camps for years. How far this identification went is suggested by Bettelheim:

> Old prisoners tended to identify with the SS not only in their goals and values, but even in appearance. They tried to arrogate to themselves old pieces of SS uniforms, and when that was not possible they tried to sew and mend their prison garb until it resembled the un-

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iforms. . . . When asked why they did it, they said it was because they wanted to look smart. To them looking smart meant to look like their enemies.[19]

But, of course, the SS was no longer to them the enemy; the enemy had become anyone and everyone who by thought or deed resisted the rule by the SS. By extension, the enemy had become all who were not in accord with the collective will. The transformation of personality had taken place.

It might be supposed that once such a transformation had taken place the prisoner then would be released. The present writer has encountered no evidence that this happened generally. True, prisoners were released from concentration camps from time to time, but their release did not depend upon any stage of personality transformation, so far as we know. If one of the purposes of the camps was to terrify the general populace, and that must have been the case, the purpose probably would have been poorly served by sending back those who had so thoroughly adjusted to them. The camps are best understood as diabolical experiments in people control, not experiments whose results would be inmates reclaimed for society but experiments whose results could be used for controlling people more generally.

Legality is only an appearance when the idea that has the world in its grip has behind it the mechanisms of the state. It is an empty form whose substance has been drained away to be replaced by arbitrary power, force, and terror in the service, supposedly, of the collective will. The concentration camp is the "law school" of socialism. ⊕

Next: *12. Nazi-Soviet Parallels.*

—FOOTNOTES—

[1]Alan Bullock, *Hitler: A Study in Tyranny* (New York: Harper & Row, 1962, rev. ed.), p. 257.

[2]See Eliot B. Wheaton, *Prelude to Calamity: The Nazi Revolution,* 1933-35 (New York: Doubleday, 1968), pp. 230-43.

[3]William L. Shirer, *The Rise and Fall of the Third Reich* (New York: Simon and Schuster, 1960), p. 194.

[4]*Ibid.*

[5]Bullock, *op. cit.,* p. 264.

[6]Wheaton, *op. cit.,* p. 436.

[7]Heinz Höhne, *The Order of the Death's Head,* Richard Barry, trans. (New York: Coward-McCann, 1969), p. 85.

[8]*Ibid.,* p. 86.

[9]Bullock, *op. cit.,* pp. 274-75.

[10]Wheaton, *op. cit.,* p. 288.

[11]*Ibid.,* p. 303.

[12]Shirer, *op. cit.,* p. 235.

[13]*Ibid.,* p. 239.

[14]*Ibid.,* p. 222.

[15]Bullock, *op. cit.,* p. 308.

[16]Bruno Bettelheim, *The Informed Heart: Autonomy in a Mass Age* (Glencoe, Illinois: The Free Press, 1960), p. 124.

[17]See *Ibid.,* pp. 133-34.

[18]*Ibid.,* p. 136.

[19]*Ibid.,* p. 171.

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Thomas W. Hazlett

THE HANDSHAKE OR THE SWORD

GOVERNMENT action to solve social problems—whether it be the public school system, the welfare system, business regulation, the tax system, Social Security, urban renewal, or Swine Flu inoculation—presents a real world picture of colossal failure. Yet, paradoxically, our society resorts almost spontaneously to government to attempt to cure social ills.

This urge to inject the state into every nook and cranny of our lives simply shows that people believe what they want to believe. If they can imagine some tangible, immediate benefit from government, they will nearly always grasp this "sure thing" rather than some vague social process called "economic liberty." Although it may be demonstrated clearly that the total cost of government almost invariably exceeds its total benefit, the instinct to want to believe in the pragmatic, concrete and direct attack on a problem through the coercive powers of the state is simply insurmountable nine times out of ten.

Whatever people want to believe, the fact is that government action and private action are not two sides of the same coin. The two alternative means of solving social problems (such as poverty, alienation, ignorance, prejudice, disease, unemployment) distinctly differ in two important respects, one a matter of social justice, and one a matter of economic efficiency.

The way in which government activity inevitably differs from private activity in the realm of social justice springs from the winner-loser relationship inherent in all political solutions. That is, for every act of state,

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authorities must decide what group is to receive some benefit, on the one hand, and what group is to provide this benefit, on the other. That every activity of the government will result in some groups being rewarded and other groups being, in effect, punished is true by the nature of state action. If everyone benefited from a particular activity there would be no need for coercion to bring it about. Such natural action and reaction is the essence of all private, voluntary relationships taking place outside the sphere of government. Professor Milton Friedman eloquently describes this arbitrary favoritism inherent in political solutions:

> A political system finds it very difficult to satisfy the needs of minority groups. It's very hard to set up a political arrangement under which, if 51 percent of the people vote one way and 49 percent vote the other way, the 51 percent will get what they want and the 49 percent will get what they want. Rather, the 49 percent will also get what the 51 percent want.
>
> In a *market* system, if 51 percent of the people vote, say, to buy American cars and 49 percent vote to buy foreign cars and the government lets their votes be effective and doesn't impose tariffs, 51 percent will get American cars and 49 percent will get foreign cars. In a market system, if 40 percent of the people vote that they want to send their children to integrated schools and 60 percent vote that they want to send their children to segregated schools, 40 percent will be able to do what they want and 60 percent will be able to do what *they* want. It's precisely because the market is a system of proportional representation that it protects the interests of minorities.
>
> —*There's No Such Thing as a Free Lunch*

Economists, in attempting to improve the welfare of society, look for potential transactions in which at least one party becomes better off while no one becomes worse off. The idea is that, without imposing value judgments upon others, we can be safe only by encouraging transactions to take place which are mutually beneficial in the eyes of the participants. To go further than this cooperative trading, and to justify some activities which bring good to some only at the expense of harming others, requires that we put ourselves in a dictatorial role in evaluating one man's gain versus another man's loss.

Coercive Redistribution

Which brings us right back to the government. All moves that the state makes involve this trading-off of one's gain against another's loss. Private transactions, contrarily, are inherently just—all voluntary arrangements are mutually beneficial or else they would never have been freely created by the people involved.

This favoritism effect is remarkably easy to see in the context of any

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government subsidy. One group—the taxpayers—provide the means; another group—the subsidized—consume the booty. Hence, a privileged class and a peasant class emerge; and while the enormous wealth and amazing inconsistency of the welfare state tend to confuse the dichotomy, the relationship survives as a result of excessive government involvement in society.

Over time, people learn the vicious "dog-eat-dog" nature of this arbitrary government power and do battle to become the one that Big Brother Likes Best. This is seen in the gang warfare that characterizes the processes of government today. Special interest groups have been born to champion every conceivable public program. Groups to eliminate foreign competition, support the price of milk, grab welfare, promote minorities, neuter puppy dogs, burn dirty books, lend businessmen money, ad nauseum, now surround Washington, D.C. like a moat with alligators. After all, if you assume that government has a responsibility to "solve social problems," what does it take to cash in, save a good story (i.e. a good press agent) and some good friends?

That such rivalry for political candies produces a new caste system, a government-ordered hierarchy of pull, there can be no doubt. As Professor Friedrich A. Hayek has alerted us:

> When the government has to decide how many pigs are to be raised or how many busses are to be run, which coal mines are to operate or at what prices shoes are to be sold, these decisions cannot be deduced from formal principles or settled for long periods in advance. They depend inevitably on the circumstances of the moment, and, in making such decisions, it will always be necessary to balance one against the other the interests of various persons and groups. In the end somebody's views will have to decide whose interests are more important; and these views must become part of the law of the land, a new distinction of rank which the coercive apparatus of government imposes upon the people.
>
> —*The Road to Serfdom*

Professor Hayek's observation of the authoritarian nature of political decisions leads us to the second principal respect in which these alternatives are mutually exclusive. The aforementioned difference being primarily a matter of political justice, this latter is essentially economic. It revolves around the contrast between the efficiency of economic activity that is directed by a disinterested bureau from above, as opposed to activity which is directed by the interactions of numerous smaller units each of which has a personal stake in the immediate proceedings.

The chief characteristic of a private enterprise solution to a problem is that it coordinates the desires and information of all interested

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parties (consumers, producers, workers, and the like) and finds some point of balance in the impersonal process known as the "market." This process is impersonal only in the sense that it does not respond solely to any one party; it is responsive, generally speaking, to thousands and even millions of individual interests.

In lifting responsibility for economic activity from the shoulders of the individuals directly involved, the bureaucratic administration of social activity is losing an incredible sum of information (especially specific information of "time and place") and those special bits of knowledge involving human incentives which, almost always, are literally impossible to communicate from one person to another.

No Reliable Guides

The meaning of this information flow is of seminal importance. In Soviet Russia, where the authorities have known no limits in their methods to force the "proper" information out of their administrators, the entire social structure is riddled with preposterous inefficiencies. The past decade has seen a vigorous battle in the USSR between the economists, pleading for decentralization, and the politicians (you *know* what side they're on).

The implications of this problem of government administration lead to even more severely challenging issues in a liberal democratic society. The concept of the Rule of Law, the cornerstone of Western Liberalism, says that government must treat all its citizens equally and must never arbitrarily detour from general rules established in advance of specific situations.

This notion of fairness is fundamental to what we respect as the Liberal Tradition, an idea whose merits are abundant. Yet this notion can rationally apply only to the necessary coercive powers of government (i.e. the defense of individual rights) and is absurd in an economic context. The supreme test of a social or economic system is precisely this: How well does it respond to the peculiar needs of individuals? While private transactions are incessantly tapered to unique individual demands (think of all those commercial slogans!), government solutions must not discriminate between individuals but must treat everyone alike. To abandon this precept of law is to grant the state vast prerogatives to arbitrarily use coercive powers and to create just the sort of antiliberal society Dr. Hayek warned of in his monumental *Road to Serfdom*.

The claim is often made that government planning can actually provide for our well-being because it has so much *more* information than individuals possess. This appears to

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be a logical argument. Certainly the Bureau of Labor Statistics, the Census Bureau, the Federal Reserve Board, and the Commerce Department's *Statistical Abstracts* are impressive. Yet practical experience has belied the efficacy of government information sources. The biggest problem is to know which information is "proper" or "important." Billions of specific pieces—tiny pieces—of information are dispersed throughout the society. What factors are relevant? Which are more relevant than others? What about factors which cannot be quantified, such as risks, incentives and personal tastes? How can statistics be of any help in telling us what unpredictable surprises are just around the corner?

Statistical Limits

Government statistics are extremely helpful in a very limited way: they can tell us the aggregate results of those things which have already taken place and which can be exactly measured (of much value to financial analysts and businessmen concerned with day-to-day changes). The important social and economic growth, however, takes place precisely in those areas of our lives that defy measurement: the risk that pays off, the invention or innovation, the new forms of social cooperation, improved culture and customs, discoveries of particular human needs, better methods of organization and production, the emergence of meritocracies.

The only reason that social problems exist is because our human knowledge is imperfect—highly imperfect. If we already knew the correct answers to our problems (or knew where to look) we would immediately cease to discuss and commence to solve our problems in "The Correct Way." But this is not our fate. We do not know what the best answers are or ought to be, and must rely almost exclusively upon trial and error. This being so, aggregate statistics are very nearly irrelevant to the basic problem which confronts us, for they necessarily tell us only what has happened and tell us nothing of the unknown, i.e., nothing of what might have happened instead or might possibly happen next.

The only way that we may strive toward an optimal solution of our journey through an indescribable world and toward a completely subjective goal is to encourage as many individuals as conceivable to use their unique circumstances and opportunities to advance the social process. In his famous essay, "The Use of Knowledge in Society," Professor Hayek elucidates:

> The peculiar character of the problem of a rational economic order is determined precisely by the fact that the knowledge of the circumstances of which

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we must make use never exists in concentrated or integrated form but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess. The economic problem of society is thus not merely a problem of how to allocate "given" resources—if "given" is taken to mean given to a single mind which deliberately solves the problem set by these "data." It is rather a problem of how to secure the best use of resources known to any of the members of society, for ends whose relative importance only these individuals know. Or, to put it briefly, it is a problem of the utilization of knowledge which is not given to anyone in its totality.

—*Individualism and Economic Order*

Amenable to Change

Herein lies the near-mystical beauty of a free market. While operating in a world of imperfection, its momentum is continuously in the direction of improvement. Using the price system, wherein prices reflect the supply and demand for commodities, *every individual* is rewarded for economizing on commodities which are relatively expensive to society as a whole. Conversely, within the profit system, *every person* is encouraged to find ways to bring more of the goods to market that are in high demand by the society as a whole. How is it possible that one administrator sitting in a Washington, D.C. executive suite—or 50,000 administrators sitting in suites all over the nation—could provide us with even a fraction of the data we need to match the responsiveness of the free market in solving our problems?

What could be a more chilling indictment of contemporary society than to focus on the real world viability of bureaucratic administration?

Picture if you will the hapless bureaucrat, surrounded by his tons of "information," completely impotent to deal with either his fellow bureaucrats or the outside world. Removed from the scene of activity and operating without aid of economic incentive, the administrator looks down at the system from on high, receiving a splendidly clear picture of the society as a whole (he has statistics!) and having little idea as to how it got that way or how it may be induced to function better.

At any point in time, however, the argument to amass the impressive powers of the state behind an indisputably important effort is most enticing. Today, for example, so-called liberals and so-called conservatives are both speeding for the pole position on a National Energy Policy. The key to this problem, as always, is lack of information. How much energy do we need? Can we conserve more energy? What is our most efficient (least expensive) source? Do we have undiscovered oil reserves? Are there other, undiscovered

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energy sources? Are geothermal, solar, wind, nuclear energy, and the like economically feasible?

Since we have no clairvoyant powers to extrapolate into the future and find how these questions will, in fact, be answered, we will have to draw upon history to deduce a general principle. Let us suppose that the year is 1900 and we wish to similarly provide for our energy needs in that era. It could be pointed out that world oil reserves were but 10 short years (one-fourth today's reserves) and that we had better undergo a crash program before America was dragged back into the Stone Age.

Short-Run Measures

An emergency program could have halted all automobile production (they couldn't be mass produced and were simply wasteful playthings of the super-rich), provided government subsidies for horse stud services to increase the supply of energy-efficient and biodegradable thoroughbreds, and handed out free axes to enable even the poor people to chop their own firewood.

It is conceivable that such a policy, given the existing level of knowledge, would have provided the best immediate solution to America's energy needs in 1900. Yet, what government bureaucrat would fill out a requisition order to discover a hundred times the existing oil reserves, what planner would direct the electric car to be replaced by the internal combustion engine, what grand official would "prioritize" Henry Ford's mass-production scheme into existence? Importantly, if government planners had intervened to impose a solution based upon their limited knowledge, these incredible advances would have dropped into the file entitled: "Might-Have-Beens." And so it goes today. To impose any short-run marshaling of resources for a concrete crisis of the moment requires a transferral of power from the men who build for progress to the men who prepare the forms to be filed in triplicate.

Given a world chock-full of social problems, we have to decide how best to cure them. Choosing between a government solution and a private solution is not merely a question of which method will solve the dilemma most efficiently in the immediate future. It must be acknowledged that the alternative means of social development are essentially separate both in terms of "social justice" and in terms of utilizing the enormous amounts of information that are so vital to a highly complex society.

Our decision between these competing methodologies, then, becomes painfully crucial. An unavoidable choice with overwhelming consequences, we should take deep

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breaths and careful meditations in considering the relative merits of either case. And let us not stumble into the error-strewn ravine of the middle path. It is surely one or the other. Public solutions will be attempted or private solutions will be attempted. But not both. Albert Jay Nock set it straight:

> It is unfortunately none too well understood that, just as the State has no money of its own, so it has no power of its own. All the power it has is what society gives it, plus what it confiscates from time to time on one pretext or another; there is no other source from which State power can be drawn. Therefore every assumption of State power, whether by gift or seizure, leaves society with so much less power; there is never, nor can be, any strengthening of State power without a corresponding and roughly equivalent depletion of social power.
>
> —*Our Enemy, The State*

While our contemporary world seems to suffer from a nasty reflex in favor of Nock's "State power," it may well be that we have mentally accepted the efficacy of "Social power"—at least subconsciously. Our language gives us away. How many times have you heard some courter of special favors denounced with the cliche: "He's just playing politics"? Or heard some scoundrel shrivel beneath the pejorative: "He's nothing but a politician!"? And we so often hear the opposite compliment: "He certainly has a business-like attitude." When people have mutual interests they exclaim: "Let's do business together." And when they roll up their sleeves to get the job done: "Let's get right down to business."

Have you ever heard a serious citizen of our age exclaim: "Let's get right down to government"? ⊕

IDEAS ON LIBERTY

From Peace to War

To the extent that a society limits its government to policing functions which curb the individuals who engage in aggressive and criminal actions, and conducts its economic affairs on the basis of free and willing exchange, to that extent domestic peace prevails. When a society departs from this norm, its governing class begins, in effect, to make war upon the rest of the nation. A situation is created in which everyone is victimized by everyone else under the fiction of each living at the expense of all. Power differentials in society are increased and aggravated, popular discontent mounts, and the ruling group seeks for a device to restore "unity." War is, of course, the time-honored national unifier.

EDMUND A. OPITZ

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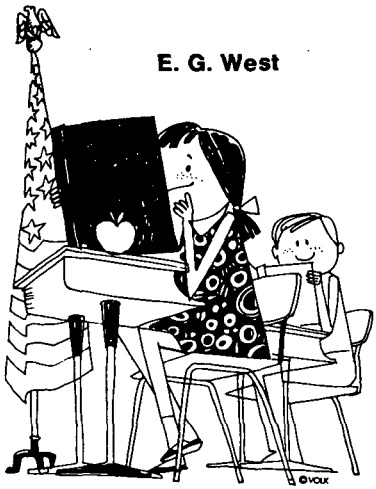
E. G. West



The Perils of Public Education

THE PROBLEMS of American public education in 1977 examined in this article are not trivial, and it is not unthinkingly alarmist to speak in terms of hazards or even of perils. They extend from the decay in efficiency of the provision of conventional school services such as training for literacy, to the even more serious hazard of placing fundamental principles of constitutional democracy in grave jeopardy.

Dr. E. G. West, Visiting Professor at the Center for Study of Public Choice, Virginia Polytechnic Institute and State University during 1976-77, recently has returned to his teaching post at Carleton University in Ottawa. He is the author of several books, including *Education and the State* and *Adam Smith: The Man and His Works*. His latest, *Nonpublic School Aid* (D.C. Heath, 1976), debates the issue with prominent educators and has aroused intense discussion.

The first to be examined will be the deterioration in schooling effectiveness. The second peril is the growing threat of a large and expanding educational bureaucracy. The third is the increasing educational breakdown caused by strikes of teachers. The fourth is the peril of breakdown from strikes of taxpayers facing school bond issues. Fifth, there is the potential bankruptcy of many remaining religious schools brought on by unfair competition from the public system. The sixth is the possibility of takeover of the government-provided system by strong ideological groups who see it as the cheapest and most effective way of public indoctrination.

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Seventh, and most importantly, there is the growing danger to constitutional democracy itself from the silent gradual eroding of the power of individuals to use their property and incomes in ways that respect their individual preferences as against the preferences of the administrators of the dispensations of government schooling.

Are there any feasible bulwarks against the perils just listed? Many people see the voucher system in the American setting as the only road left open. It will be argued here, however, that this system might, at most, be a change that is merely cosmetic. At worst, it will lead to the embroiling of the remaining private sector of education with the public system. The article will conclude with the only really feasible solution—and one that will be readily dismissed as reactionary by those who do not wish to hear the argument through—*the abolition of "free" education.*

Educational Deterioration

According to a recent admission of the U.S. Office of Education, more than twenty-three million American adults, that is about 20 per cent of adults, are unable to function effectively in today's society. More than half of the American adult population are not proficient in reading, writing, computation and problem solving skills.[1] Scholastic Aptitude Test (SAT) scores have been falling steadily for two decades.[2] Meanwhile because of unprecedented violence in schools, the increasingly hostile environments therein are less and less conducive to personal safety, let alone successful instruction. A Senate subcommittee report compiled on some 150 school districts in the mid 1970's concluded that 70 thousand teachers annually are seriously injured in attacks by students.[3]

The Increasing Bureaucratic Hold on Education

The theorist will argue that families have control on their public education via the democratic process. In practice everybody now knows that their power has been severely attenuated, and especially in the last few years. The cause seems to have been the increasing centralization of education. Where a family lives in a district where there are only 100 families altogether, it has at least a one in one hundred chance of having its voice heard in educational policies, provided, that is, that the family is prepared to spare the time at the relevant public meetings, debates, committees, and so forth. But, when the local educational district becomes "consolidated" into a larger district containing, say 1,000 families, its chances of being heard are only one in a thousand. So, as school districts en-

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large, it becomes less and less rational for the individual family to participate in the democratic process as it concerns education.

The strongest advocates of increasing consolidation have been the administrators of the public system. They have argued that larger school districts produce economies of large scale. Testimony to the influence of their reasoning is seen in the evidence on district sizes over the last two or three decades. In 1950 about half the pupils in America were enrolled in districts numbering less than 3,000 and another half in districts numbering over 3,000. By 1973 two thirds of all public school pupils were enrolled in districts of 25,000 or more.[4]

Despite the administrators' arguments about economies of scale, the facts show the contrary. Per pupil costs *increase* with district size in most cases. Is it only an incidental fact that the salaries of public school professional personnel happen to be an increasing function of district size? In agitating for increasing district and school size, have they been oblivious of the fact that they have been arguing for an outcome that will benefit their own incomes, whatever the result for education of children?[5]

If we use the term bureaucracy in its widest sense, we include in it all people working for public enterprise. In this sense it includes teachers as well as administrators and other support personnel in the public educational system. Such a total population has now become of formidable size in political terms. For it includes at least 2 million people employed by the elementary and secondary public school system of America, and all of whom are entitled to vote. It is a population, moreover, that is apt to be more active in voting than average. Their organizations, such as The National Education Association and The American Federation of Teachers, meanwhile constitute one of the most concentrated and organized lobbying powers Washington has ever seen.

Strikes by Teachers and Taxpayers

One of the associated perils of this formidable political power among teachers is their increasing propensity to strike. It is a common feature in the 1970's for the school year to begin with school strikes in several of the big cities, strikes that appear to be more involved, to be more bitter, and to extend for longer periods each year. The objective of the usual strike, of course, is the increase of pay. Often this is accomplished indirectly by strike pressure to strengthen the teachers' monopoly position.

Teachers' certification now restricts entry in most states to teach-

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ers who have been trained in the standardized way that is approved by administrators and teachers organizations. This arrangement, of course, restricts competition from other disciplines and from other forms of training. And it excludes mature people with valuable experience that might be used in an imaginative way in the classroom. Even university professors would not qualify to teach their subject in high schools because they, too, are not certified.

In forty states, teachers have now been granted the right of collective bargaining. In fifteen, the law now recognizes the "agency shop." This means that one union becomes the *exclusive* bargaining agent for all teachers in a school. Those teachers who refuse to join the union are compelled to pay fees that match the union dues, and much of the revenue from both sources is subsequently used for political purposes. It is in these states in particular that the effective control of public education seems to be passing from democratically-elected or appointed public school boards to the heads of teachers' unions.

The major aim of the National Education Association and the American Federation of Teachers seems to be universal control of the policies and revenues of the public-school system. Already the unions have secured important places for themselves on many school curricula committees. Implicitly, therefore, an effective union-inspired, if not imposed, censorship of the content of education seems to be around the corner. What is still more dangerous is the possibility that ultimate success in the aim to control school finances will probably mean that all additional money squeezed from the taxpayers will be preempted for teachers' salary increases.

Monopolizing the Funds

The likely consequences can be illustrated from the recent experience of one school district in Michigan. The school board has now abolished the teaching of English literature and of physics in the high school on the argument that there isn't enough money any more to pay for such "fringes" in the curriculum! Most of the money, it seems, has gone in increased teacher salaries through the efforts of the local union which appears to have "drained board and district nearly dry."[6]

Even before teacher certification and teacher unionization, the public education system was already equipped by law with some of the strongest monopoly weapons. Most monopolies have to content themselves with costly stratagems to restrict entry. In education, the law performs this function free of charge to the monopolists. For new entrants

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cannot usually compete for a service when they are giving it away free. The public school system has the additional power of compelling people to pay for their services even if they do not consume them. Thus, they do not have to wait for customers to come into their "store," the customers have their incomes "garnisheed" well in advance and in substantial proportions.

The crowning monopoly power of all, of course, is the compulsory education laws. Few other monopolists enjoy the privilege of being able to compel by law the attendance of customers in the monopolist's "store." The public education "stores" (schools) have enjoyed this privilege for about a century. Whether they have served children as well as alternative methods of providing education is now a subject for considerable doubt. What is clear is that compulsion has served the private interests of public school personnel very well.

Religious Schools in Peril

Some of the main remaining competitors of the public system are the parochial schools. These, however, are experiencing severe financial hardship and many face potential bankruptcy. And this is not surprising. The main threat to the survival of nonpublic schools is rising costs, especially personnel costs. Education is labor-intensive. Teachers, and even administrators, are so strongly unionized that their organization is now spreading to the nonpublic schools. And these schools *cannot* place the bill for increased salaries upon the taxpayers. School expenditures per student in America have increased five times in real terms in three decades. And the cost difference to families between using the private and using public schools continues to widen.

It may be feared that if parochial schools disappear the school system that will be left will be a monolithic organization producing homogenized students taught along uniform lines. This situation would hardly be consistent with the traditional aspirations of America to be the land of individuality, spontaneity, and freedom.

Ripe for Seizure

Historical experience, nevertheless, shows that once a country has produced such standardized machinery for instructing the young, this same machinery becomes a prize of the first order to totalitarian political groups who wish rapidly and effectively to change the philosophy of the people and to convert it to its ideology. Should such sentiments be rejected as inappropriate in a country like America?

The danger in the past has materialized in countries like Nazi

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Germany, Fascist Italy, and Communist Russia. It will be argued that such events could not occur in America since her democratic process would not allow it. Nevertheless, one should be aware of the fact that in several parts of America a resolute attempt is now being made, and under the leadership of some important colleges of education, to capture the public system once and for all and to disseminate one particular point of view, the view of socialism.

It is interesting that its intellectual leaders, the American socialist writers on education, are against the voucher system. Indeed they are opposed to any other scheme that would promote immediate free choice among families. People would only use such freedom to choose their education in a way that will perpetuate the capitalist class system. People have been indoctrinated, this same argument continues, to know their station in life, and to respect upper classes and their traditional privileges. The public school system, so far, has been the chief handmaiden of capitalists over the years in a subtle process of indoctrinating the public into docile acceptance of their lot. The public school system has been more than proportionately represented on its committees by leaders of industry, a characteristic that goes back a long way into the nineteenth century. Ordinary Americans are thus not yet ready for freedom in education and need a transitional period of deprogramming so that they are finally schooled out of their die-hard beliefs. The socialists, therefore, do not wish the public school system to be abolished. For they want to take it over themselves and to turn it into a huge citizen education camp in which people can, slowly but surely, be released from what Marx called the state of "false consciousness."[7]

Typical of the stream of socialist writing on education is the recent book by Martin Carnoy, *Education as Cultural Imperialism* (New York, 1974). Much of the message is already in the title. The author, an influential and experienced scholar in the educational world, eventually reveals that "there are many people now in the school system willing to work toward changing the hierarchical structure of society." Moreover, the new education "should be designed to create or reinforce a *nonhierarchical* society, in which property will not have rights over people, and in which ideally no person will have the right of domination over another." (pp. 364-366) But Carnoy insists that ". . . any transformation requires changing people's understanding of the social contract and the meaning of work, responsibility and political participation." (p. 366)

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The Voucher System

On the voucher system, another leader of the new socialists in education, Professor Henry Levin, has recently made explicit the radicals' objection to it:

> . . . but, if the present schools tend to contribute to the reproduction of social class from generation to generation, educational vouchers will surely exacerbate this phenomenon . . . vouchers would make this class stratification and socialization even more "efficient" by making it possible for parents to choose particular primary and secondary schooling environments based upon these [indoctrinated] values.[8]

Meanwhile, the family itself is regarded as a reactionary institution. The very top leaders of the new socialists in education, Samuel Bowles and Herbert Gintis, warn that:

> The male-dominated family, with its structure of power and privilege, further articulated according to age, replicates many of the aspects of the hierarchy of production in the firm.[9]

In their new and influential book, *Schooling in Capitalist America* (New York, 1976) Bowles and Gintis speak much of the need for democratization of American education. But to ordinary people, democracy means the right to influence and the right to choose. A voucher system, whatever its ultimate effectiveness, sets out with the intention of encouraging individual choice explicitly. It would allow people to vote with government-supplied cash funds as well as with their feet. Bowles and Gintis, however, do not really want such democratic popular preferences expressed in education, at least not in the short run. Rather they want leadership in the public schools by their own socialist elite. This is *their* real conception of democracy.

It is ironic that the socialists believe that capitalist influences have been at work to promote the "cult of efficiency" in education as a preparation for unquestioned adaptability in the work place. But looking at the school system of America, nothing could appear more *unlike* an efficiency promoting enterprise. The records of increasing illiteracy, falling SAT scores, growing truancy, increasing violence that was mentioned earlier, are surely eloquent testimony to this. The fact is the public school system is not a capitalist organization. Rather, it is nearer a *socialist* institution, dominated as it is by the huge and increasingly centralized public bureaucracy.

The New Dialectic in Education

In one sense, strangely enough, it could be argued that some kind of Marxian dialectic *is* at work in American education. The Marxian socialists' process of thesis and antithesis, of class conflict and even-

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tual overthrow, of revolution and ultimate withering away of once dominant but now discarded institutions, may all indeed be working in the American public education scene. But the "laws of motion" of public school development may be quite opposite to those predicted by Marxists. True, there is conflict already, and in a sense there is revolution taking place in various parts of the system. Only a few years ago to question the public school system in America was like questioning motherhood. Today, everybody is doing it. People of all persuasions are openly critical and it is now quite possible that the public schools could "wither away."

In several cities it is now commonplace for parents to go out in the streets protesting against school busing programs. In others (as in Oregon in the winter of 1976-77) the *taxpayers* have been "going on strike." This is done by their refusal to finance bond issues. And now in Missouri, 23 public school districts (in St. Louis County) have been sued by a group of taxpayers who charge that the schools teach religion in the form of "secular humanism." The plaintiffs have asked for a refund of their taxes, and meanwhile tax funds are placed in escrow by the courts. Indeed, a similar case has been filed every year since 1971, and each year the funds have been "frozen" pending the outcome of the litigation. A favorable ruling in Missouri could ultimately result in sweeping changes nationwide to the whole public school system.

The arguments of the Missouri plaintiffs include the view that any code of moral or ethical behavior taught by the schools can be considered religion. Certainly it is impossible for the schools not to teach some code or behavior. It is therefore not logical to give preference to one code of behavior that the government selects and not to give equal status to the moral and religious code of behavior selected by the parents. In this view the use of tax money to support public schools that teach religion is unconstitutional according to the First Amendment. The only fair way to support education according to the Missouri plaintiffs is the introduction of the voucher system. In this system, tax revenues for education would go directly to parents for them to use at any school of their choice: public, private, or parochial.

The St. Louis action seems to be no passing event. The plaintiffs seem to be resolute and determined to continue worrying the public school bureaucracy in an apparently endless battle. They have sent each school district a list of 31 questions that deal with how the schools handle discipline and teach about values, sex, human relations, drugs, and social problems.

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In July 1976, the Ohio Supreme Court gave a unanimous decision supporting First Amendment rights of parents against the state's imposition of education standards on nonpublic schools that would "deprive [individuals] of their traditional interests as parents to direct the upbringing and education of their children." Perhaps more significant, since it sympathizes with the complaints of the St. Louis parents, was the pronouncement by Justice Frank Celebrezze that the philosophy imposed by the state through its standards "relating to the teaching of citizenship, social studies and health, may be interpreted as promoting secular humanism, and as such, may unconstitutionally be applied. . . ."[10]

Legal Alternatives

Parents seem increasingly to be seeking legal alternatives to public schools that will not infringe the compulsory education statutes. Usually the motive is the protection of their children from what parents believe to be adverse or hostile school environments. There have appeared in the last few months a rash of "learning exchange networks," "travel study programs," independent home-study courses, tutorial instruction, and small nonpublic "family" schools. In the past, such attempts have been challenged by public school administrators on the grounds that the private education given was not organized or systematic as public schools, that the teachers were not certified, or that, generally, the education given was not "equivalent" to that of a public school. Today the courts seem to be less persuaded of such "equivalency test" since the public schools do not necessarily guarantee an efficient education anyway.

A judge in a lower level superior court in Maine recently rejected a criminal action against a parent who refused to send her child to a local public school and accepted the alternative "home-study educational program" given by the parent-teacher even though she was uncertified. The kind of argument put forward by the parent is very pertinent:

> The monopoly nature of compulsory public schooling: we are forced to accept this service whatever our opinion of the quality of the service may be. Not only is there no alternative available but we are not even allowed to refuse the State offers if we don't like it. . . .
>
> Why does the burden of proof have to rest on the parents, to show that they can teach their children? I am trusted to provide adequate food, shelter, clothing and medical care for my children without any direction or supervision from the State. . . . Why can't I be trusted to educate them also?
>
> The parents have the ultimate responsibility for raising the children, whose time and energy is being appropriated

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and who bear the ultimate consequences of educational failures. It is not reasonable to deal out the responsibility to the parents, the consequences to the children, and leave all the authority with the schools.[11]

The famous *Pierce* case of 1922 which decided that a state could not compel all students to be educated in public schools seems now, in the late 1970's, to be enjoying something of a revival. The Vermont Supreme Court, citing *Pierce,* rejected in 1976 criminal actions brought against several parents for sending their children to a school that was not approved by the state.[12] The Court also referred to the recent *Yoder* case in the U. S. Supreme Court which stated that "compulsory attendance, even in an equivalency basis, must yield to First Amendment concerns."

Teachers' Unions

The First Amendment is also much referred to in current litigation on teachers' unions. One of the most significant has been the *Holmquist* case that was ruled on December 10th, 1976. Albert M. Holmquist, a teacher in Wisconsin, started a long court struggle in 1971 when he argued for 2½ minutes, at the meeting of the Madison Board of Education, against a proposal to compel teachers to pay agency fees to unions. The local teachers' union protested that Holmquist should not have been allowed to speak because the union had exclusive bargaining rights with the board. The Supreme Court ruled unanimously that when the school board conducted public meetings the First Amendment prohibited it from discriminating between speakers "on the basis of their employment or the contents of their speech."

Another Supreme Court case, decided in May 1977, concerns about 600 Detroit teachers ("Abood")[13] who do not belong to the union and who have been refusing to pay compulsory fees to it as required by the agency shop legislation. Their complaint has been that the arrangement is unconstitutional because it obliges public employees to contribute to a political organization. If the Supreme Court had found the agency shop unconstitutional, the power of unions in education would have been severely curtailed since they would not only have faced competition from new unions, but would also have depended on voluntary, not compulsory fee payments—a situation which would have reduced considerably financial resources for campaigning.

The Supreme Court ruled, however, that public employees *could be* required to pay "agency fees" to the one union that represents them as a collective bargaining agent. The Court added, however, that if an employee objects to the use of his

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fees for political purposes not related to collective bargaining, his fee must be reduced by the amount spent on those activities. The Court acknowledged that there would be "difficult problems in drawing lines" between collective bargaining activities and other political activities. Those lines will clearly have to be drawn in future decisions.[14]

In spite of all the previously mentioned dangers from the increasingly monolithic public school system, the system seems clearly to be in peril itself. New revolutions are clearly afoot; but they could "explode" in several directions. The remainder of this article will concentrate on possible financial "revolutions."

Abolition or Vouchers?

Those who are fully aware of all of the above serious problems in the state system of schooling are faced with an enormous task when seeking ways for reform. Some would advocate the extreme policy of abolishing the whole public school system as quickly as possible. This is clearly an unrealistic policy and it could easily alienate the majority of people. This is not to mention the formidable body of conservatives who would be ready to heap scorn on such a radical proposal and to use their extensive political influence to stifle it. The term "conservatives" is used here in its proper sense to mean all those people who wish to conserve intact the existing institutions. It includes all the most vigorous supporters of the public school system whether bureaucrats, teachers, democrats, or socialists.

The second and most widely discused reform that could begin to combat the disadvantages of the public school system is that of the voucher system, and we have seen that the Missouri parents are arguing for it in the courts. The current leading intellectual advocate for this scheme (a scheme that has a long history going back to Tom Paine) is the 1976 Nobel prize winning economist Professor Milton Friedman.

Friedman has always separated three levels of issues. First, whether schooling should be compulsory, second, whether it should be governmentally financed or privately financed, third, how it should be *organized*. His argument for vouchers is continually made on the understanding that the first two of these issues, compulsion and the degree of government finance, are put on one side. In other words, assuming that we have compulsion, and assuming that the government is in the business of education to the extent of full, 100 per cent, finance, a voucher scheme would produce a better and more effective *organization* of government finance than the

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present one. That is, vouchers provide a superior alternative to a system of governmentally-run as well as governmentally-financed schools. If, for instance, the government is now spending $800 on a child's education in a public school, Friedman's voucher scheme would direct this same $800, not to the school, but to the parent or guardian. The parent would not be allowed to spend it on non-educational goods. When spending it on education, however, he would be allowed to do so at the school of his or her choice.

Political Prospects

In my opinion, the voucher system does not stand much chance of being accepted in present American circumstances. Moreover, it would incur some further dangers even if it were accepted. The organized teacher unions have stated their uncompromising opposition to vouchers, and this alone is a political reality that must be faced. The second even more important "roadblock" is the current attitude of the Supreme Court. It is clear from their recent deliberations that the Court would regard vouchers as *aid* from the state.

The Court's reasoning in the famous *Nyquist* case in 1973, treats vouchers along with tax exemptions for schooling as state aid.[15] And under the First Amendment the state is not allowed to provide aid to parochial schools in any significant way. Since 90 per cent of the non-public school population in America are in parochial schools the chances of a voucher system having much effect in the short run at least will therefore be very small. It is true that the *Nyquist* case concerned the particular circumstances in New York where a state government was deliberately attempting to enable *particular* parochial schools to survive (largely in order to prevent embarrassment to the public schools). It is arguable that a *universal* voucher scheme for all parents *whether in public schools or private* would have no primary effect of aiding religion. My own review of the Court's language in other cases besides the Nyquist leads me, however, to the opinion that they would not allow a universal voucher scheme, even on these wider arguments.

Conditions Imposed

Even if the voucher system were accepted, there is another danger to consider. They would presumably be spendable in the small remaining private sector of education. At the least, the government authorities would impose some initial condition on these schools to qualify them for receiving the *government* finance that vouchers embody. Insofar as government inspectors have a prior interest in government (public)

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schools, there is a probability that they would begin to impose progressively more restrictive conditions on the private schools, especially where they threatened to "poach" the customers from the public schools. The ultimate result could be the destruction, or at least reduction, of the small private sector and the only remaining competitor with the public.

It is important to return to the two issues that Friedman assumes to be given or settled, the existence of compulsory legislation and the situation where government authorities finance schooling up to almost 100 per cent of requirements. The first of these issues, compulsion, for all practical purposes can be taken as undisputed in the way that Friedman does.

The second issue, however, full government finance, should *not* be taken as settled. In the past, Friedman has speculated that the rationale for government *finance* has stemmed from the "external benefits" of education. These arise where the action of an individual benefits not only himself but others in society. Society, it is argued, stands to gain for instance from the existence of a literate population. It will also benefit if schooling leads to a reduction of crime and the promotion of law and order.

But the trouble with this argument is that it could apply to most things. It follows that government should be providing most of us with our everyday needs at zero price. Every time I wash myself I provide benefits to people around me. On this argument should society provide me with free soap and free hot water? It will be replied that in this case the incentives to pursue my own personal comfort will be sufficient to secure my own cleanliness at my own cost. But if this argument is made in the case of cleanliness why not in the case of education? Where is the evidence that people will not purchase education and become literate in the pursuit of their own private benefits, and in sufficient quantities to make the marginal benefits to society not worth the marginal cost of further encouragement?

Who Pays?

We should also remember that we are considering the educational purchasing behavior of private individuals not in the present world of high taxes but in a world where the government has not stepped in to tax them to provide them with "free" education. In the present world everybody pays taxes, right down to the poorest. "Free" education is purchased from revenues from regressive property taxes, sales taxes, and from many other taxes that the poor are not able to avoid. Were the poor to be excused from all these numer-

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ous taxes who is to say that they would not spend the proceeds in positively priced education? Where is the evidence?

It has never been demonstrated that most of the poor in America today are not paying for their own "free" education from their own tax contributions. Remember that these contributions are collected over a lifetime. I have estimated elsewhere that a poor family contributes a total undiscounted life-time contribution in education taxes of $7,380.[16] We have to remember too, that the poor typically receive an education that is of a shorter duration than others. So while their cost contributions are lower than average so are their benefits. It is therefore not clear that they are not contributing enough to finance themselves entirely. If they are, and especially if means can be found to allow parents to borrow on their future incomes, then compulsion is the only form of intervention that is needed. Government-operated zero-price schools are superfluous, and, judging by the heavy bureaucratic overheads, excessively costly.

It is interesting that in 1976 Milton Friedman came to the opinion that the argument of external benefits to society is, after all, no longer valid as a justification for government finance of education.[17] This means that of his three separate issues only the first, compulsion, now remains as undisputed in his reasoning.

One may now ask, if there is no argument for government providing the finance in education, why is there an argument for providing vouchers which are nothing else but tickets or checks that channel this finance through families? If we take the two issues together, the case for Friedman vouchers collapses; for there is no justified government finance to supply them. Friedman argues nevertheless, that, if we cannot take the two issues together, if we are in other words stuck with government school finance, then vouchers would be a better way of allocating it. If one has boldness to argue for vouchers however, it is difficult to see why the boldness stops at the government finance question. Why cannot the theory of government intervention be argued comprehensively in one package?

Tolerable Improvements

What then could be done? Radical or global overnight revolutions are out of the question. What is required in the first instance is a policy of gradualism, but gradualism in the right direction. The correct direction is indicated, in my view, in the insistence upon continuous questioning of "who pays for what" in education. Consider next year's inevitable financial problem in the public schools. Undoubtedly there will be

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yet another cost increase and this for "genuine" reasons as well as for reasons for further monopoly or teacher union development. The key strategy is to focus on the method of providing revenues for this next *annual increase*. The government presumably knows on whom the burden will fall. If it doesn't then, on its own admission, it is supervising a gigantic public school system in the dark, a system that certainly would not seem consistent with the Equal Treatment clause. It cannot argue that its taxes are not preventing *every* family from buying the same education privately.

The government therefore will be obliged, on persistent questioning, to announce its expectations about the distributions of the burdens of next year's tax increase. Normally cost increases are financed out of marginal increases in several of the taxes, sales taxes, property taxes and so on. At this stage an estimate should be made as to how much each family with children at school will be contributing to these taxes. The next step is to insist *that some of the family's contributions be paid directly at the door of the school instead of indirectly via various conventional tax payments*. In this way we will establish what can be called a "marginal user tax" as an additional tax source, but one that is direct and reveals some information as to who *is* paying for what.

This user tax system is in effect equivalent to a fee or tuition payment system. The objection will then be heard that the clock has been put back because education is no longer "free." This seems to be the key argument to meet head on. Its advocates always put quotation marks around the word "free" whenever they describe the public system. The proposal of the user tax made here is not one of abolishing free education (free without the quotation marks around the word). It is a proposal for abolishing the quotation marks around the adjective. But if education is not really free, as the advocates tacitly admit by their use of quotation marks, what is the argument against poor parents paying their conventional tax contribution in the form of a price at the door of the school? The program initially at least is a very modest one and meets the requirement of gradualism. For it is not the full price of their education that the family will be charged but merely a price sufficient to cover the marginal increase in the annual cost.

A First Step

For the sake of illustration suppose it is found that parents with children in school fall into two classes—a rich class that will face *additional* taxes, raising from each member another $100 to meet the increase in school costs for the edu-

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cational year 1978-79, and a poor class with members also facing additional taxes which take from them an additional $50 for the year in question. The proposal here is that all parents are charged $50 at the door of the school. (The rich parents will pay another $50 through increased conventional taxes.)[18]

If this policy is resolutely pressed, and if it succeeds, it will have the effect of removing one of the most entrenched illusions in the whole public education mythology, the illusion that people are getting something that other people are paying for entirely. The illusion of free education can be shattered even with the most modest weekly payments by parents. Even if a mere dollar a week is charged, the principle will be established, the illusion will be abolished and education might be set on the correct course once and for all.[19]

After several years of cost increases the user charge or fee will gradually rise. People will be no worse off than they would have been had the present system continued. But they stand to be increasingly better off because they will be given increasing scope for choice. Every time a parent transfers his child from school A to school B he or she will now automatically transfer funds to the school of his or her choice. Because he now contributes funds directly in the form of fees his preferences will now be considered seriously. At the same time the school that is losing customers will be placed more on the defensive since they will automatically be losing revenues. This financial discipline is the claimed virtue of the voucher system of course. What is being demonstrated here, however, is an alternative to such a system, that the courts could not strike down, and one that does not involve the "two way or round trip" of money from parents to the government and back to parents again.

Significant Results

Finally it may be objected that the fees will never rise sufficiently to be of much significance to the administrators of schools. This is a matter of degree however. One would have thought that a fee paid by parents that covers even ten per cent of the school finances would be of considerable marginal significance. And ten per cent should be reached in a year or two.

However, if one wants to give the parents even further scope, one should concentrate on the *lifetime* taxes that they are paying under the present system. The parents could be given the option of access to their future incomes by way of a loan scheme to service lower education. This scheme would enable them to pledge their future incomes and draw upon them so as to pay up to *full cost* of their education. In this

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form the parents would handle *all* the finance as in the Friedman voucher system, but with this difference: There would no longer be any ambiguity as to who is providing the finance. If it is clear that it is the parents' own money that is being spent there can be no argument by the Supreme Court that the state is aiding religion or anything else. The remaining government intervention will be a financial, not an educational one. It will be for the purposes of improving capital markets not for entering the education business.

Constitutional Perils

A more important aspect of the return to direct fee paying is that it reinstates property in the common law sense of the term. When people pay for their education indirectly through the government process, their property rights become obscure and their liberty is curtailed. In contrast, if a person is called upon to pay a user-tax or fee only if he uses the school in question, he is at liberty to choose a private school over a public one if he so desires. This property right and this liberty do not exist in the present system which is a system wherein the parent has to pay twice for private education. The strengthening of common law notions of property is an important and necessary development if constitutional democracy in America is to be rescued. For it is in the spirit of this democracy that liberty and property go hand in hand.

It is in the setting of *ambiguous* property rights, a setting wherein nobody knows exactly who owns the schools, and who has the right to do what in public education, that the Supreme Court has in the last two decades begun to fill the vacuum with what amounts to *legislative* decisions. This development is contrary to the spirit of the American constitution with its separation of powers. It is contrary to the spirit of the First Amendment that is grounded on private law, not public law, conceptions of liberty.

The Supreme Court held in the *San Antonio School District v. Rodriquez*[20] that the equal protection clause was not violated because of substantial variance in educational expenditures per pupil throughout several school districts. The Court's judgment was not judicial but legislative. For it was educational policy judgment based on evidence of no significant correlation between expenditures and educational equality.

Similarly the 1977 Supreme Court reasoning in the *Abood* case seems to have been based more on the needs of the government than the First Amendment rights of individuals. It argued that respect for agency (union) shop legislation is justified by the state's interest in

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establishing a system of labor relations in which one union serves as the exclusive representative of school teachers. The arrangement was thought to distribute fairly the costs of collective bargaining among those who benefit and to prevent "free riders." This again is surely a government *policy* issue, not a judicial question. The common law concept of the Court's function forbids such technological excursions and confines it simply to the protection of legal relationships such as the enforcement of contracts once agreed upon.

Consider also the Supreme Court's recent involvement in questions whether certain subjects can or cannot be taught. In reaching these decisions the Court imposes such a subject, or absence of a subject, upon large numbers of people who object. If these people had direct control of their own property they could take appropriate and effective action. They could remove their child from the offending school and transfer it to another which had their preferred curricula.

Finally, if there were a common law property interest, individuals would be able to hold their suppliers legally accountable in cases of mismanagement. Where there is no such property interest, as in the present public school system, the individual "consumer" seems to have no such recourse. The best recent illustration of this is the case of Peter W. Doe and his parents who recently attempted to sue the education authorities in San Francisco for passing him through high school with a diploma without even providing him with the ability to read and write.[21] The plaintiffs ultimately lost their case. A similar suit has now been filed with New York State. An 18-year-old Long Island youth and his family are suing a local school board for $5 million, contending that the school system from which he was graduated in 1976 failed to educate him properly and left him "unable to cope . . . with the affairs of the world." The youth formed the view that "it was not his fault" when he started working with a private tutor at the end of his years in high school.

The New Spirit

The new "revolutions" in the late 1970's certainly include some fresh attempt by the courts to give stronger recognition to the parents' First Amendment Rights. But this new judicial spirit seems to be in a different direction from the legislative-type intervention by the courts on questions of equal protection and collective bargaining. It is the new spirit and direction that needs to be encouraged. The user-tax system proposed here will do just that. It will bring the courts back more into spheres where they

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traditionally belong—the legal supervision of contracts and respect for common law property. The other areas of contention such as busing, equal protection, and so on, will eventually narrow as "public funds" (a phrase that judges are particularly sensitive to) are slowly replaced by private funds.

Ultimately therefore, there is a basic conflict between the common school and the common law. The common (public) school now seems both indigenously "American" and "un-American" at the same time. But the original American common school was not "free," and it is "free" education that seems to be at the root of all the present perils of public education. But if one is to be quoted on this let it be emphasized once more that the word "free" is written with quotation marks. ⊕

--FOOTNOTES—

[1]Office of Education study, released on October 30, 1975, *The Washington Post,* October 31, 1975.

[2]Malcolm G. Scully, *The Chronicle of Higher Education,* March 3, 1975. See also *The Chronicle of Higher Education,* September 15, 1975, p. 1.

[3]Reported by Robert J. Staaf in "Political Economy and the Right to Choose; Public Education," in *Financing Public Schools in Virginia,* ed. Stephen B. Thomas, published by the Virginia Institute for Educational Finance, vol. 5, 1976.

[4]*Ibid.,* p. 82.

[5]Robert J. Staaf, "The Public School System in Transition; Consolidation and Parental Choice" in *Budgets and Bureaucrats; The Origins of Government Growth,* ed. Thomas Borcherding, Duke University Press, N. C., 1977.

[6]Russell Kirk, "Emancipating the Schools," *National Review,* February 28, 1977.

[7]E. G. West, "The Radical Economics of Public School Breakdown; A Critique," *Review of Social Economy,* vol. XXXIV, No. 2, October 1976.

[8]H. M. Levin, "Educational Vouchers and Educational Quality," Stanford University Occasional Paper 74, August 2, 1974, pp. 13, 17.

[9]S. Bowles and H. Gintis, "I. Q. in the U. S. Class Structure," *Social Policy,* November 1972 and January 1973.

[10]*State of Ohio vs. Whisner* (1976), 47 Ohio St. 2d.

[11]From "Notes for the defense," *State of Maine vs. Elizabeth King,* Sagadahoc Cty., Superior Court Docket No. 74-318.

[12]*Joseph La Barge vs. State of Vermont,* Supreme Court Docket No. 230-75 filed April 1976.

[13]*Abood vs. Detroit Board of Education,* 1977.

[14]*The Chronicle of Higher Education,* May 31, 1977, p. 11.

[15]E. G. West, "An Economic Analysis of the Law and Politics of Nonpublic School Aid," *Journal of Law and Economics,* Spring 1976.

[16]E. G. West, *Nonpublic School Aid,* Lexington Books (D. C. Heath), 1976, p. 54.

[17]*Ibid.,* p. 92.

[18]Special arrangements and concessions would have to be made for the minority families on welfare.

[19]Free tuition in higher education has already disappeared in New York from the pressure of recent financial stringency.

[20]411 U.S. 1.

[21]*Peter W. Doe vs. San Francisco Unified School District et al.,* Civil Case No. 36,851.

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AWAKE FOR FREEDOM'S SAKE

Awake for Freedom's Sake (Foundation for Economic Education, Irvington, N.Y., $5.00, 192 pages) is Leonard Read's twenty-second book. Like most of its predecessor works it makes its case for the free market in distinctively moral terms. The free market is better not only because it makes for more efficient production, it is better because it builds on the exercise of individual wills, which forces responsible men to think in ways that lead one straight to the Golden Rule as the governing principle of life.

Leonard Read does not claim to be an original in his promotion of a philosophy that is as old as the Ten Commandments, which state the case for "life, liberty and property" in grand negatives ("Thou shalt not kill," "Thou shalt not steal," etc.). But he remains a master of the sly juxtaposition that makes him such an excellent teacher. He invokes the prophet Isaiah, who exhorted his listeners to "awake and sing, ye that dwell in dust." Dust, of course, is infinitesimal. Mr. Read makes the point that all our "numerous know-hows" are, taken separately, rather infinitesimal in nature. As he has said before, no single man can make a pencil! But the sum total of our "specks of dust," when they are permitted to operate in freedom, amounts to something fairly substantial. If we realize our own individual investments in the "countless millions of know-hows experienced by others" we will be ready, with Isaiah, to "awake and sing."

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In the same essay that quotes Isaiah on dust, Mr. Read tosses off a phrase about "wall-to-wall socialism." Man's goal, he says, is, with the help of others, "to shake loose his 'dustiness' as best he can." But what can you do when "wall-to-wall socialism" hides the dust under the carpet?

A Mirage of Prosperity

Even in Russia, Mr. Read notes, there is a leakage of creative human energy from underneath the carpet. Moreover, the wall-to-wall socialists depend utterly on the transfusions they get from the relatively free societies on the other side of iron and bamboo curtains. In several essays Mr. Read remarks on the "mirage" that causes people to think that State interventionism is the cause of prosperity. "What gives socialism the appearance of working," he says, "is the freedom socialism has not yet destroyed." Because the many "dusts" of American "know-how" are still combining to produce the "plethora of goods and services no other people on earth have ever experienced," State interventionism has not yet managed to kill prosperity. But the masses, who see "socialism advancing as never before in American history," are deluded by politicians who claim credit for causing a plenty which will surely disappear when there is no more freedom for energy to flow.

We live, so Mr. Read reminds us, on thrusts from the past. The Sumerians, practicing the freedom philosophy, gave us the first schools, the first bicameral Congress, the first case of tax reduction and the first moral ideals. Sumerian freedom lasted for four centuries, until "the city-state of Lagash had become a total bureaucracy—all parasites and no hosts." Then the world was pushed back into "the same old mess" until a "second exception occurred in Athens." The Venice of Marco Polo (1250-1325) was another exception, with a "freedom to produce and to exchange with others thousands of miles away."

In the time of Louis XVI Turgot tried to apply the principles of the 18th century French Physiocrats ("a fair field and no favoritism") to government, but he couldn't hold his king to a strong policy. Nevertheless the Physiocrats had their effect on Adam Smith, whose *Wealth of Nations,* in turn, affected the thinking of the American Founding Fathers. Now, with the multiplication of scores of sub-governments in Washington, we are in danger of forgetting the Founders. It could be "the same old mess" once more if we don't "awake for freedom's sake."

Bits of Autobiography

Mr. Read is not given to personalities, even personalities about himself. But he does give us a few

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tantalizing bits in this book about his personal history. He tells how he first came to despise the hell of war. He and a school roommate applied for acceptance in the aviation signal corps in 1917. The roommate was rejected—and "dejected"—but Leonard was accepted and dispatched on the liner *Tuscania* for France.

Then the *Tuscania* was torpedoed and sunk in the Irish Sea, Leonard was rescued and debarked in Ireland. Since telegraphic services were out of order, he happened to be listed as a nonsurvivor in his Michigan hometown newspaper. His school roommate, angry at the presumed loss of a friend, went to Canada, got into the Canadian infantry, and was in the front line trenches in France in two weeks. Six months later he was in the hospital with twelve shrapnel wounds, half of them still open. That was the last Leonard Read ever heard about his roommate.

There are other bits of autobiography in *Awake for Freedom's Sake,* but only enough to whet the appetite. I could stand a lot more information about Leonard Read's experiences as a General Manager of the Los Angeles Chamber of Commerce. His efforts to keep California on the straight path during the period when Upton Sinclair was proposing the EPIC (End Poverty in California) plan for socialism convinced him that education, not political action, was the key to stopping the spread of socialist ideas. Accordingly, he came East with the idea of starting the Foundation for Economic Education.

He was, in short, a crucial link in an important process of osmosis that has revived the freedom philosophy not only in America but in Britain. In "accentuating the positive" about freedom, Leonard Read does not depend on the economists alone. The Index of his twenty-second book contains 148 name references to philosophers, religious leaders, historians, poets, novelists and belle lettrists where there are only eleven name references to economists.

It is Leonard Read's widespread culture as well as his economic understanding that provokes letters such as the one from England which I received the other day about *The Freeman.* The letter spoke of the achievement of "Leonard Read, Henry Hazlitt and . . . other colleagues" as "the brightest beacon in a lowering sky; and as I think A. J. Nock once wrote, what is so exciting is that you will never know what your own teaching and writing impels other people to think, to believe, and to achieve."

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THE CAPITALIST READER
edited by Lawrence S. Stepelevich
(Arlington House, 165 Huguenot Street, New Rochelle, New York 10801)
272 pages ■ $9.95

Reviewed by David A. Pietrusza

THIS BOOK offers an admirable selection of free market writings from Adam Smith to Milton Friedman. It includes excerpts from Frederic Bastiat; essays by such representatives of the Austrian School as Boehm-Bawerk, Mises, Stolper and Hayek; and the thoughts of such forceful exponents of the capitalist ideal as Ayn Rand, John Chamberlain, and Lawrence Fertig.

"The attack launched against capitalism . . . was never grounded in the issue of productivity," writes the editor, "but rather in the issue of its morality. Does a system based on competition, self-interest, and monetary profit befit the true nature of man? Are freedom and justice possible within such an economic matrix, or must the economics be changed to ensure that these values prevail? It is to these issues that the capitalist apologist must address himself . . ."

It was Bastiat who argued that liberty and the free market are opposed to all forms of plunder and spoliation. Bastiat urged mankind to "reject all systems, and try liberty; for liberty is an acknowledgement of faith in God and His works."

Under the regimes of plunder, the powerful use political leverage to gain economic advantage, but when liberty prevails no one enriches himself at the expense of another. "Nobody is needy in the market economy because of the fact that some people are rich," writes Ludwig von Mises. "The riches of the rich are not the cause of the poverty of anybody. The process that makes some people rich is, on the contrary, the corollary of the process that improves many peoples' want satisfaction. The entrepreneurs, the capitalists, and the technologists prosper as far as they succeed in best supplying the consumers."

Nevertheless—and despite its estimable track record of solid achievement—free enterprise continually comes under attack from those advocating redistributionist schemes in the name of a nebulous "common good." To obtain such an end result the freedom of the individual must necessarily be sacrificed on an altar of state power; governmental and bureaucratic controls must be imposed. "The tribal notion of the 'common good'," writes Ayn Rand, "has served as the moral justification of most social systems—and of all tryannies—in history. The degree of society's enslavement or freedom corresponded

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to the degree to which that tribal slogan was invoked or ignored."

Wilhelm Roepke, an architect of the West German industrial revival, acknowledges that "the economic function of private ownership tends to be obstinately underestimated," but points out that the free society is sustained by a moral base. "The truth is that a society may have a market economy and, at one and the same time, perilously unsound foundations and conditions, for which the market economy is not responsible but which its advocates have every reason to improve or wish to see improved so that the market economy will remain politically and socially feasible in the long run. . . . The market is only one section of society. It is a very important section, it is true, but still one whose existence is justifiable and possible only because it is part of a larger whole which concerns not economics but philosophy, history, and theology."

The market as a moral imperative is thus more than ably defended and from a variety of perspectives. While this volume provides opening glimpses into the works of the major defenders of the capitalist system, it also furnishes a significant look into this all-important aspect of the rationale for freedom.

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